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

May/June 2018

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I. Snapshot

Overview

Macro Picture

- **USA:** Fiscal stimulus and additional government spending to sustain above-trend growth path
- **EA:** The economy has likely passed its peak, with monetary stimulus progressively withdrawn and global trade growth easing somewhat
- **UK:** Growth to remain subdued in the short-run as considerable uncertainty about Brexit prevails
- **EM:** Economic recovery of commodity exporters continues
- **CESEE:** Signs of growth moderation across the region in Q1 2018

Policy Outlook

- **USA:** Continuation of gradual monetary tightening, with a total of four Fed rate hikes in 2018
- **EA:** QE to conclude in Dec 2018; Interest rates to remain at their present levels at least through the summer of 2019
- **UK:** The voting pattern of the June MPC policy meeting and the more hawkish tone of the minutes have increased the risk of a rate hike later this year
- **CESEE:** Different inflation paths allow for divergent monetary policies across the region

Summary

The majority of economic indicators support the view that Q1 was a soft patch and global growth is set to pick up in Q2 mainly supported by robust investment growth and a tightening labour market. Trade war escalation, however, could dampen the outlook, especially if there is tit-for-tat retaliation against all of US tariffs

Markets

- **FX:** The USD rally has continued, supported by data and rate differentials and European political woes. Positioning now seems balanced with CBs and politics setting the tune
- **Government bonds:** The Italian political woes and renewed worries over trade wars spurred a sharp safe haven core government bonds rally, reversing the sell-off witnessed in the beginning of May. Stronger US data should keep the Fed firm on its tightening path with EZ core outperforming
- **EM:** EM spreads widened significantly in the past one and a half months, reflecting the continued rally in US rates and the dollar, and the increasingly hotter "trade war" thematic. Stable data/growth provide macro support mid term for the space but idiosyncratic risks remain
- **Credit:** Credit spreads significantly wider in May to mid-June with supply absent and Italian politics as well as trade wars dominating. A dovish ECB QE end in the June meeting provided some relief, with cash outperforming. Decompression between IG and HY remains the theme with financials underperforming

Key Downside Risks

- **More protectionists actions:** Import tariffs by the US spread out to more sectors and trade partners respond with tit-for-tat retaliation measures; risks for more severe damage to business sentiment, investment and supply chains
- **Renewed political risks**: Italy's new government comes on a collision course with European authorities; possibility for a break-down of the coalition government in Germany due to CDU/CSU asylum dispute; UK Conservative leadership challenge due to softer Brexit momentum
- **Higher than expected rise in inflation:** Hawkish repricing of monetary policy expectations; more aggressive rate tightening by major CBs

Macro Views

Eurobank

Latest Macroeconomic Developments & Outlook

World Economic Outlook		While economic growth lost some momentum in Q1 due to a combination of supply-side constraints, uncertainty related to geopolitical developments and temporary factors, the prevailing market view is that the slowdown will prove temporary and global growth will remain resilient further down the road, mainly supported by robust investment growth and healthy labour market dynamics. However, trade war escalation poses risks and could dampen the global growth outlook, especially if there is tit-for-tat retaliation against all of US tariffs, with countries strongly export-oriented and dependent on global supply chains to be the most adversely affected.
Developed Economies	**US**	Following a softer start to the year, the US economy is set for a rebound in Q2, with household spending supported by increased growth in after-tax higher disposable income and business and government investment boosted by lower corporate taxes and higher spending caps. Overall, we expect fiscal stimulus and additional government spending to keep the US on an above-trend growth path of 2.8% in 2018 and 2.6% in 2019, leading to increased resource utilization and likely to a modest inflation overshooting above the Fed's 2% target.
	Euro Area	Leading indicators do not point to a sharp economic slowdown, but rather a pullback from strong end-2017 growth rates. We expect euro area activity to increase 0.5%QoQ on average in H2 2018 driven by solid consumption and investment growth coupled with strong labour market dynamics. Nevertheless, the balance of risks seems skewed to the downside amid mounting trade frictions and global protectionism. Overall, we expect euro area GDP to decelerate from 2.4% in 2017 to 2.1% in 2018, as monetary stimulus is progressively withdrawn and global trade growth eases somewhat.
	Periphery	In Italy, following a mild economic deceleration in the first months of the year, the economy continues to grow above trend largely buoyed by domestic demand, while political developments take centre stage. In Spain, after a solid Q1 performance in spite of a broader Eurozone slowdown, political uncertainty is back clouding its economic outlook. In Portugal, robust economic expansion remains on track mainly supported by a flourishing tourism sector, a tightening labour market and past reforms. In Cyprus, the rapid pace of economic expansion continued in Q1, while the liquidation plan of the Co-operative Bank (CCB)-the second largest bank-was finalized and approved by EU in late June.
Emerging Economies	**BRICS**	Following growth of 6.8%YoY in Q1 in China, economic activity appears to be losing some steam. Escalation of trade war jitters to likely give ground to looser financial conditions. Economic recovery gained some momentum in Russia with GDP growth at 1.3%YoY in Q1 vs. 0.9%YoY in Q4 2017. High frequency data released thereafter appear positive. Rising oil prices this year and the World Cup are expected to provide support to growth, while US sanctions pose risks. Growth in India accelerated to 7.7%YoY in Q1 2018 from 7.0%YoY in Q4 2017. Real GDP growth slowed to a 3-month low of 1.2%YoY in Q1 2018 in Brazil from 2.1%YoY, with expectations for full-year growth having been scaled down of late amid elevated political tensions, a truck drivers' strike and rising US yields.
	CESEE	In most cases, economic activity showed some signs of moderation on a quarterly and annual basis in Q1 2018, albeit remained on a healthy track. Those readings reinforce our earlier views that regional economies are about to or have already reached their cyclical peak. The rising trend of headline and core inflation is uneven across the region, allowing for divergent regional Central Bank monetary policies.

Global Macro Themes & Implications

Theme	Implications
The new government's fiscal plan in Italy challenges EU fiscal rules, suggesting risks of tensions with European authorities and rating downgrades	Following the recent escalation of political tensions and the subsequent Italian bond sell-off after President Sergio Mattarella rejected the nomination of Eurosceptic Paolo Savona as finance minister, the 5SM and the Leaguemanaged to form a coalition government that was finally approved by the President. The 18-member cabinet of Prime Minister Giuseppe Conte won a confidence vote in both houses of parliament and therefore secured the legitimacy to govern, with a combination of political and technocratic appointments (apart from the position of Prime Minister Conte, there are three more key government members that are technocrats: Foreign Minister Enzo Moavero Milanese, Finance Minister Giovanni Tria and EU Affairs Minister Paolo Savona). Although key government members have underlined that they have no intention of an Italian exit from the eurozone, the new government could potentially clash with the EU treaties and deficit rules. In more detail, the fiscally highly expansionary programme of the new government -including a flat tax, a universal income (i.e. minimum guaranteed income) and a lower retirement age whose estimated costs amount to as much as €100-125bn in its first full year (~6.0% of Italian GDP)- is viewed by markets as a challenge to EU fiscal rules unless properly offset by effective saving measures. With a fiscal deficit of 2.3% of GDP in 2017 and a public debt level of 132% of GDP (the second highest in the EU after Greece), it is highly unclear how the implementation and the financing of the economic programme can be reconciled with the commitment to maintain the general budget deficit below 3.0% of GDP. Even in case that it could be, the expected upward trend in Italian budget deficit would contravene rules of the Stability and Growth Pact, calling for a narrowing of its deficit by at least 0.6pp of GDP per year. Questions over Italy's fiscal sustainability could potentially trigger a downgrade spiral (all three major rating agencies assign Italy just two notches above non-investment grade). Fitch's and Moody's reviews are scheduled for end-August, with the latter already placing in late-May Italy's rating on review for a possible downgrade. Meanwhile, another obstacle for the implementation of the pre-announced economic plans is that the populist coalition has a narrow majority in both houses. Therefore, the equilibrium between the two parties might prove unstable, raising the chances of another general election in the not too distant future. Besides the slim majority in both houses, the heterogeneous nature of the coalition means that frictions within the government could potentially emerge down the road. In addition, judging from recent opinion polls, the League could benefit most from new elections as its public support could increase significantly compared to the March election outcome. Therefore, should opinion polls continue to favor the League, the probability of the party withdrawing its support from the government opening the way for new elections cannot be ruled out. While both coalition partners are expected to keep an eye on upcoming opinion polls, the key issue for investors is how much of the programme the government intends to implement and how fast. Though Italy's Finance Minister Giovanni Tria tried to reassure markets in his first interview since taking office on the government's commitment to the euro and the continuing decline in the public debt/GDP ratio, for a better understanding on the government's policy strategy, market focus is on the so-called Update to the Economic and Financial Document, the basis of the 2019 budget plan, the government has to submit to parliament by 27 September. Should the new government manage to stay beyond the 2019 budget —expected to be presented in the parliament in October— the next date to watch would be the scheduled European Parliament elections in May 2019, with the EU vote expected to be a critical factor for the coalition.

Global Macro Themes & Implications

Theme	Implications
US/China tit-for-tat tariffs fuel trade war fears	Deepening a trade dispute that has pushed the world's two biggest economies on the brink of a trade war, US President Donald Trump threatened to impose a 10% tariff on an additional $200bn worth of imports of goods from China should the latter goes ahead with its decision to raise tariffs on $50bn of US imports, in retaliation to the US's announcement on 15 June of a 25% tariff on $50bn of imports from China (mostly industrial machineries, electrical and electronics products) on the grounds of potential violation of intellectual property practices. Although the prevailing market view is that the US and China will eventually return to the negotiating table and reach a mutually satisfactory deal in the next couple of quarters, the likelihood of at least a brief period of a further escalation of trade dispute with a more negative impact on business confidence, global trade and investment has certainly increased.
ECB balances APP taper announcement with dovish rate forward guidance	Based on its assessment that progress towards a sustained adjustment in inflation has been substantial so far —and in spite of lingering uncertainty over the evolution of euro area economic activity in the short-term— the ECB Governing Council decided unanimously at the 14 June monetary policy meeting the asset purchase programme (APP) to conclude in December 2018 following a short tapering in Q4 2018 at a monthly pace of €15bn (vs. €30bn until September 2018), on the assumption that incoming data will confirm its medium-term inflation expectations. The somewhat earlier than expected APP taper announcement was counterbalanced by a new dovish rate forward guidance. In more detail, the Governing Council announced that interest rates are expected to remain at their present levels "at least" through the summer of 2019, swapping the previous forward guidance of "well past the horizon of net asset purchases" that the market had interpreted as a six-month period after the end of the programme. The new forward guidance was perceived by market participants as the dovish part of the ECB policy announcement, pushing back rate hike expectations to at least September 2019.
FOMC median dots for 2018 moved up to four rate hikes from three; forward guidance modified to a more neutral monetary policy regime	For the second time this year, the FOMC increased by 25bps its target range for the federal funds rate at the June 12-13 policy meeting to 1.75-2.00%. The Committee upgraded its assessment of economic activity to "solid" from "moderate" and the summary of economic projections shifted in a hawkish direction. The median dots for 2018 and 2019 ticked up to 2.4% and 3.1%, respectively, from 2.1% and 2.9%, previously, with the 2018 median now implying a total of four rate hikes, one more than in March, and the median 2019 still implying three. The 2020 dot was left unchanged at 3.4% implying one hike, down from two in March. The full forward guidance section was removed from the accompanying statement to reflect a more neutral monetary policy regime. In fact, the FOMC presumably wants to avoid any strong commitment to future policy as inflation approaches the 2.0% target and the fed funds rate nears its estimate of long-run neutral rate. During the press conference, Chair Jerome Powell stressed uncertainty about future policy developments and the need to focus on incoming data. To that end, he announced that, as of January 2019, he will hold a press conference after every scheduled FOMC meeting rather than every other meeting as is currently the case, in an effort to ensure that every meeting is seen by market participants as a live meeting.

Macro Themes & Implications in CESEE

Theme	Implications
Real GDP growth moderated in some economies of the CESEE region in Q1-2018	Regional GDP growth estimates of Q1 2018 rendered no surprises. In most cases, economic activity showed some signs of moderation on a quarterly basis and annual basis, albeit remained on a healthy track. Those readings reinforce our earlier views that regional economies are about to or have already reached their cyclical peak. The economies of our focus continue to be among the top performers in EU-28.
Domestic demand remains the principal driver behind growth. Net exports' contribution turns negative	Private consumption made a key-yet smaller than last year-contribution to GDP growth as real disposable incomes continued rising at a lower rate than last year mirroring higher inflation against a backdrop of further labour market tightening, loose financial conditions, sustained consumer sentiment gains. Investments dynamics picked up on the back of increased EU funds utilization. Higher imports, linked to the import intensity of investments and households' consumption, combined with softer exports data in some cases turned net exports' contribution to negative across the region.
The EU Commission Budget proposal for 2021-2027 envisages a 7% reduction in cohesion funding which matters for the CESEE region	The EU Commission Budget unveiled proposal for 2021-2027 envisages a 5% in agricultural and 7% reduction in regional &cohesion funding. The reduction in each country's allocation revealed that CEE economies (Czech, Hungary, Poland, Slovakia) are among the ones which are going to suffer significant funding cuts (around 25%). In contrast, SEE economies such as Bulgaria and Romania are going to receive more funding (around 8%). More importantly, the Commission proposed a new mechanism linking EU funding disbursements to additional criteria such as the rule of law adherence. The forthcoming negotiations among EU member states are going to be lengthy and contentious.
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. 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 remained put since then. On the other hand, Romania is an outlier. NBR has already delivered 3 hikes of 25bps so far this year bringing the KPR at 2.5% given the inflation (expectations) jump, tightened liquidity and is expected to deliver at least one more in the next months.

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 May and early June, with paper of longer maturities, namely between 7 to 10-years, experiencing the largest drops (between 8-10 bps), while those of shorter tenor showed little change. The Bulgarian Ministry of Finance continued its recent policy and did not hold any auctions in May and June and has not shown any indication of an offering in July. • Meanwhile, Eurobond yields saw modest drops between 6-13 bps across the board with the exception of the longest maturity, namely the 2035 paper, which saw its yield rising by 8 bps.
Serbia	• The impact of a steady inflow of foreign capital into Serbia over recent months has been supportive of dinar appreciation. According to the Statistical Office of the Republic of Serbia, foreign direct investments in the country totaled EUR600mn in first three months of 2018, 5% more compared to Q1 of 2017. However, this upside trend for the RSD appears to have been largely offset by Central Bank (NBS) interventions in the FX market. In more detail, NBS bought EUR220mn from banks in May while in just five days of June, NBS scooped an additional EUR145mn. With those two factors in collision, it appears that there is limited room for an EUR/RSD break sustainably above or below the 118.00 mark, around which it has remained strongly anchored over the last couple of months. That said, upside risks to the pair lie ahead. Amongst those worth mostly highlighting is the prospect of negotiation talks between Serbia and self-proclaimed Kosovo reaching a dead-end. At the same time downside risks also prevail and may be identified in the face of a more rapid than expected EU policy normalization.

Markets View

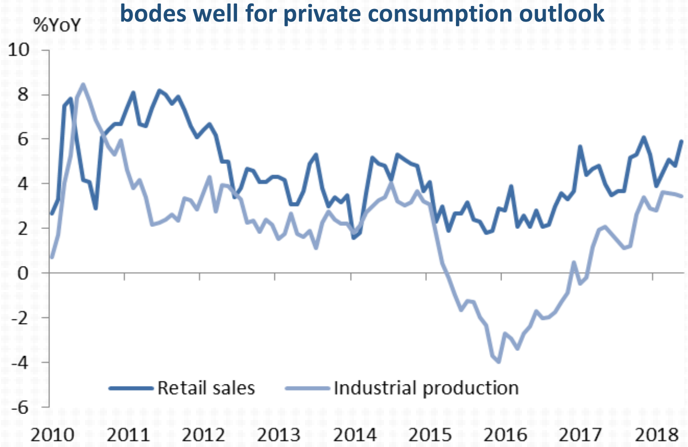
Asset Class	Outlook
Foreign Exchange	**EUR/USD**: The USD rally continued with the pair reaching a low of 1.1510 - on the potential of Italy staging a second round of elections - before bouncing back at 1.1775 and reversing back to 1.1550 post a dovish ECB. European political woes as well as data and rate widening differentials squeezed USD bears with short positions getting unwound exacerbating the move. The market USD positioning is now neutral as hedge funds are long but real money and central banks have been consistently selling the USD rally for the past month. CB divergence and trade wards should keep the bid on the USD with little impetus for the single currency to rebound. **USD/JPY**: Downside surprises on both growth and inflation broadly kept the JPY on the defensive, before risk aversion led to JPY outperformance. Q1 GDP and national CPI came in lower than expected. This pushed USD/JPY higher, reaching a four-month high of 111.40 on 21 May. Nevertheless the pair quickly began to reverse the earlier sustained weakness on the back of a broad "risk off" move caused by the introduction of tariffs from both US and China, as the CHF and USTs also rallied, pushing USD/JPY below 110 at the time of writing. **GBP/USD**: GBP weakened as ongoing soft data saw the probability of a rate hike from the BoE decline. GBP weakness was exacerbated by the USD bounce, seeing Cable end the month down 3.4%. On 10 May, the BoE left rates unchanged and GBP depreciated as the market interpreted this as a 'dovish hold'. Brexit developments also remained a focus, but widespread speculation of the UK staying in a customs union with the EU was unable to support GBP.
Government Bonds	**EU:** The unfolding Italian political situation was the key focus in May. Risk off moves supported the Eurozone core, as US and UK as Italian yields soared across the curve. President Mattarella's veto of the choice of finance minister sparked an unprecedented safe haven rally flattening the curves and sending the Bund yield to 0.26%. The eventual formation of a government (albeit an anti-establishment, populist one) put some calm to the fixed income space, but a dovish ECB forced markets to reprice rate hike expectations for the last quarter of 2019 . Adding more uncertainty to precarious EU balances German political woes have come to the forefront with Chancellor Merkel's fragile coalition under threat from a CDU-CSU spat over immigration. **US:** The US economy continues to outperform, evident in the latest payrolls data and with 2Q GDP, tracking a robust 3.7%. On the other hand, the unprecedented step of G7 finance ministers and central bank governors singling out the US over tariffs underlines the still precarious trade situation. 10yr yields hit their highest level since 2011, reaching ~3.126% on 17 May but the move soon retraced amidst the Italian political turmoil (2.78% low) aggressively flattening the curve. The unwinding of the risk off move at the end of the month (10y back towards 3%) was short lived as a non inspiring Fed, a dovish ECB, falling oil prices and continued risk aversion on the US-China impending trade war gave bulls control with 10s/30s swaps now at 0.
EM hard currency debt	A stronger dollar and higher US rates exposed the weakest among emerging markets, in particular Argentina and Turkey. These two countries are now in crisis mode in terms of policy response, which has included jacking up interest rates in an attempt to contain inflation, ease currency volatility and offset significant external imbalances. However, this does not apply to most of other EM. In sharp contrast most EM countries have increasingly macro stability, low inflation differentials, lower current account/fiscal deficits and much higher FX reserves. Therefore they are not all equally vulnerable to external shocks. Trade war deterioration is an important risk off factor. Overall EM credit remains rich but post recent widening, some tactical long trade opportunities emerged. Potential for further USD strength and increasing US rates remain the main risk for the asset class, but specific stories make differentiation and idiosyncratic risk a bigger factor than macro developments in the short term.
Corporate credit	May 2018 was the worst month for EUR IG since September 2015, recording returns of -1.37%. Spreads widened 23bp to the end of May (35bp trough to peak), and extending a few bps wider during early June. However a dovish ECB QE end announcement caused a relief rally (mostly in CDS rather than cash). In EUR HY, spreads widened more than 100bps trough to peak. Worries over a full-blown trade war resurfaced (US did not extend the waiver on steel tariffs to EU, Mexico and Canada, while it imposed new tariffs on China with retaliatory measures by the latter. The market was primarily driven by the Italian sovereign spread widening that dragged European and especially peripheral credit wider. Financials were the notable underperformers. Markets recovered since then with the Italian government playing down its anti euro rhetoric. Overall CDS indices underperformed cash over the last 1.5 month. We expect moderately wider spreads in cash due to increased supply coming in the next few months. We maintain our main view of further moderate widening into year end. Potential opportunities in EUR short end corporate curve (1-5 years) emerge after primary market concessions going forward.

II. Advanced Economies

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

USA: Fiscal stimulus to boost short-term growth

The recent upward trend in retail sales bodes well for private consumption outlook



Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, June 2018

	Median* (percent)			
USA	**2018**	**2019**	**2020**	**Longer run**
Change in real GDP	**2.8**	**2.4**	**2.0**	**1.8**
March projection	2.7	2.4	2.0	1.8
Unemployment rate	**3.6**	**3.5**	**3.5**	**4.5**
March projection	3.8	3.6	3.6	4.5
PCE inflation	**2.1**	**2.1**	**2.1**	**2.0**
March projection	1.9	2.0	2.1	2.0
Core PCE inflation	**2.0**	**2.1**	**2.1**	
March projection	1.9	2.1	2.1	
Fed Funds Rate	**2.4**	**3.1**	**3.4**	**2.9**
March projection	2.1	2.9	3.4	2.9

Source: Bloomberg, BEA, BLS, Eurobank Research

Latest Economic Developments

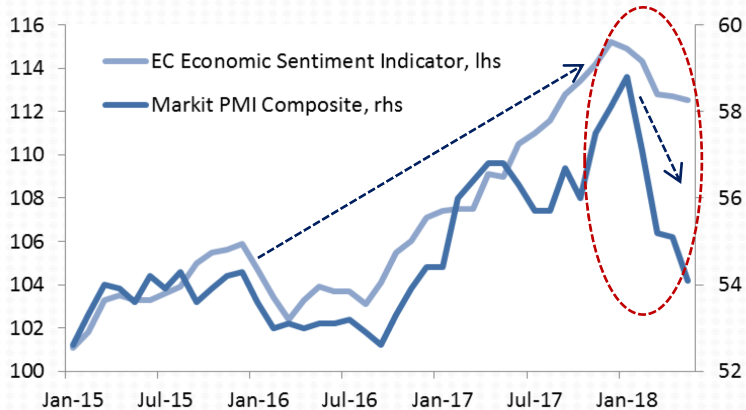
Following a softer start to the year, the US economy is set for a rebound in Q2, with household spending supported by increased growth in after-tax higher disposable income and business and government investment boosted by lower corporate taxes and higher spending caps. Supporting the above, retail sales rose for the third consecutive month in May while the University of Mich. consumer sentiment index rose to a four-month high of 99.3 in June, pointing to a likely acceleration in personal consumption growth in the following months. Confidence remains high among both consumers and businesses, the labour market continues to tighten while there are growing signs of building price & wage pressures as several temporary factors that have been depressing core inflation have now abated. Consumer prices increased 0.2%MoM at the headline and core level in May, taking the annual rate at 2.8% and 2.2%, respectively. Overall, we expect fiscal stimulus and additional government spending to keep the US on an above-trend growth path of 2.8% in 2018 and 2.6% in 2019, leading to increased resource utilization and a modest inflation overshooting above the Fed's 2% target.

Central Bank Watch

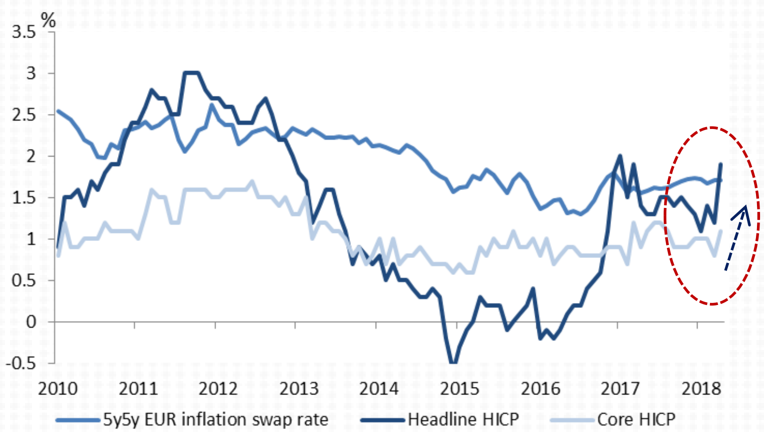
The Fed raised the target range for the fed funds rate by 25bps to 1.75-2.00% at its June meeting with a relatively more hawkish statement compared to May, upgrading its assessment of economic activity and household spending, revising lower its projection for the unemployment rate in the forecast period 2018-2020 and shifting slightly higher the 2018 core PCE inflation forecast. The Fed median dots for 2018 and 2019 increased to 2.4% and 3.1%, respectively, from 2.1% and 2.9% in March, implying a total of four hikes for 2018, up from three previously, another three 25bps rate hikes for 2019, and one additional rate hike in 2020. Forward guidance was modified to remove the phrase that the fed funds rate would remain "for some time" below longer-run levels while inflation outlook was also upgraded to omit "carefully monitoring". Our baseline scenario calls for a continuation of the Fed's gradual monetary policy tightening, with a total of four interest rate hikes in 2018.

Euro area: The economy has likely passed its peak

Leading indicators continue to trend lower, albeit still consistent with well-above trend growth



Core inflation surprised on the upside in May, mostly due to base effects on volatile components



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

Latest Economic Developments

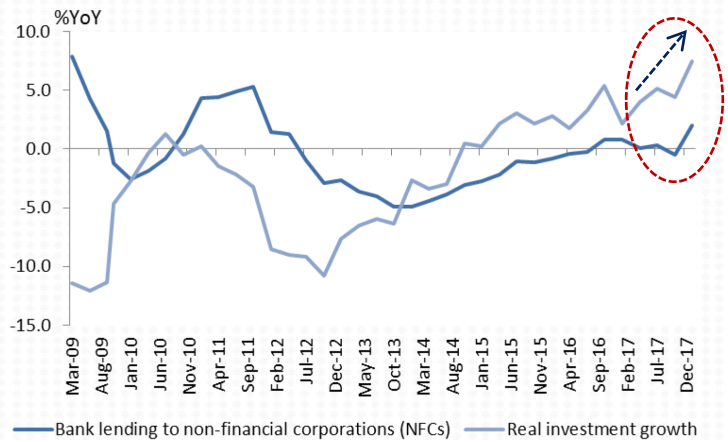
Euro area Q1 18 GDP was confirmed at 0.4%QoQ from 0.7%QoQ in the prior quarter, with weak trade dynamics and to a lesser degree investment being the main factors behind the deceleration from Q4 17. Industrial production declined by 0.9%MoM in April, suggesting that the moderation in growth may continue well into Q2. Leading indicators do not point to a sharp economic slowdown, but rather a pullback from end-2017 strong growth rates. We expect euro area activity to hover around levels of 0.5%QoQ on average in H2 2018 buoyed by solid consumption and investment growth coupled with strong labour market dynamics. Nevertheless, the balance of risks are skewed to the downside amid mounting trade frictions and global protectionism, in combination with the continuing downtrend in euro area business surveys. Overall, we expect euro area GDP to decelerate from 2.4% in 2017 to 2.1% in 2018, as monetary stimulus is progressively withdrawn and global trade growth eases somewhat.

Central Bank Watch

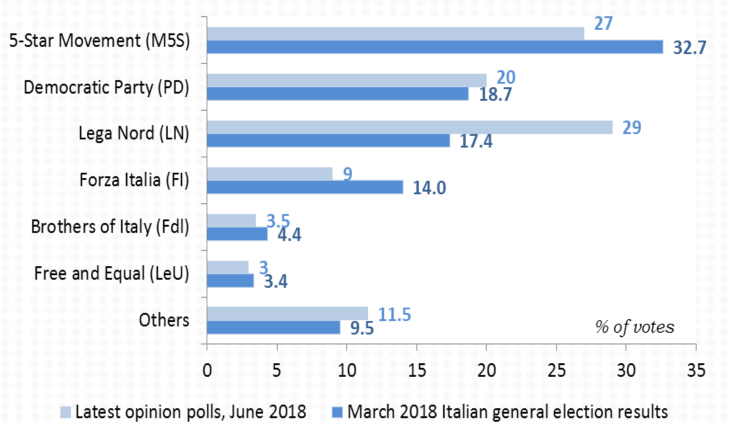
At its 14 June meeting, the ECB announced that the asset purchase programme should conclude in December 2018 with a short tapering in Q4 at a monthly pace of €15bn vs. €30bn until September 2018 subject to incoming data confirming the ECB's medium-term inflation outlook. Delivering a rather dovish message, the ECB strengthened its forward guidance on interest rates, expected to remain at their present levels at least through the summer of 2019, and in any case as long as necessary to ensure that inflation remains in line with the current expectations of a sustained adjustment path. Mr Draghi emphasized that all future decisions are data dependent, citing that "the Governing Council stands ready to adjust all of its instruments". Looking ahead, the ECB's reinvestment policies are expected to gain more importance in its forward guidance, with the next significant ECB decisions to centre on how the proceeds from maturing bonds will be distributed and whether the average duration of the portfolio shares of issuers/issues will be held constant.

Italian politics remain in the spotlight

Bank lending boosts real investment growth



Public support for League has increased since the March election



Source: OECD, ISTAT, EC, Bloomberg, Eurostat, Eurobank Research

Latest Economic Developments

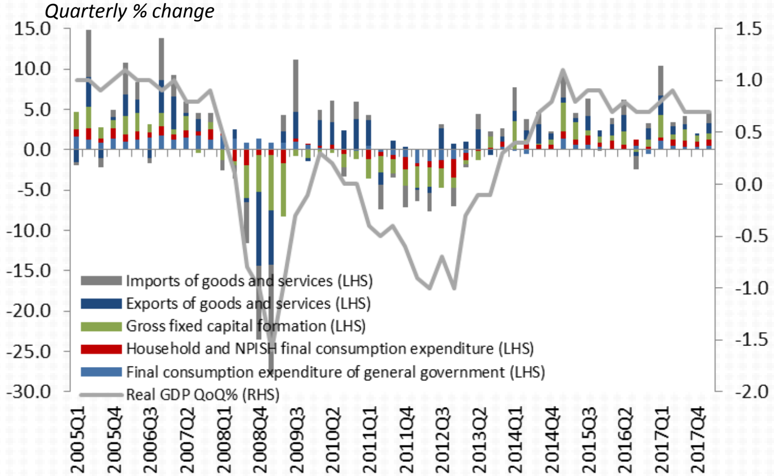
Despite the mild economic deceleration in the first months of the year, the Italian economy continues to grow above trend, largely buoyed by domestic demand. Italian composite PMI index stayed stable at a 15-month low of 52.9 in May from its recent high of 59.0 in January, albeit still pointing to steady and rather modest expansion. Private consumption growth is expected to slow somewhat due to moderate wage and employment growth, while business equipment growth is projected to accelerate supported by tax incentives, continuing to drive the economic recovery. On the flipside, the external sector, which has recently underperformed, is expected to lose some further momentum on softening external demand and the lagged effect of the EUR’s appreciation. Overall, we retain our view that real GDP will likely decelerate to 1.4% in 2018 and 1.2% in 2019 from 1.5% in 2017.

Italian politics update

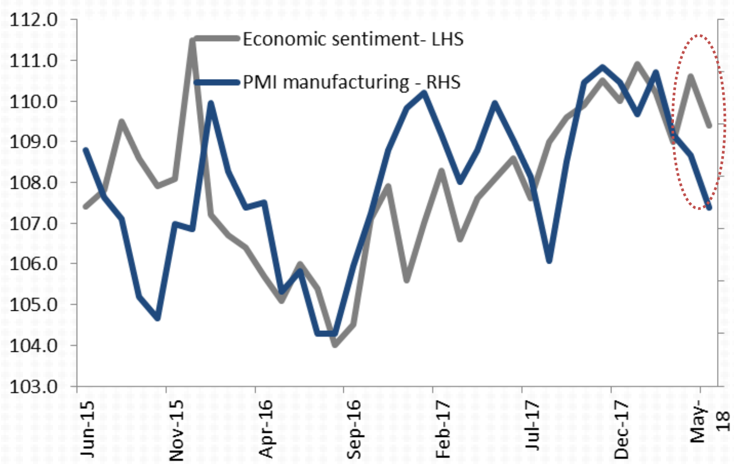
Following the recent escalation of political tensions, the 5SM and the League managed to form a coalition government that was finally approved by the President. The 18-member cabinet of Prime Minister Giuseppe Conte won a confidence vote in both houses of parliament and therefore secured the legitimacy to govern. Although key government members have underlined that they have no intention of an Italian exit from the eurozone, the new government could possibly clash with the EU treaties and deficit rules. Questions over Italy’s fiscal sustainability could potentially trigger a downgrade spiral by major rating agencies. Meanwhile, another obstacle for the implementation of the pre-announced economic plans is that the populist coalition has a narrow majority in both houses, while the heterogeneous nature of the coalition means that frictions within the government could potentially emerge down the road. Additionally, judging from recent opinion polls, the League could benefit most from new elections as its public support could increase significantly compared to the March election outcome. Therefore, should opinion polls continue to favor the League, the likelihood the party to withdraw its support from the government opening the way for new elections cannot be ruled out.

Spain: Healthy growth in Q1 but recent data point to slight moderation in Q2

Q1 GDP: Healthy growth amid a broader slowdown in the Eurozone



Survey data point to slight moderation in Q2



Source: Eurostat, EU Commission, Bloomberg, Eurobank Economic Research

Latest Economic Developments

The second estimate confirmed that Spain's Q1 GDP grew by a solid 0.7%QoQ for the third consecutive quarter, showing resilience to the Catalan crisis and the broader Eurozone slowdown over the same period. Domestic consumption remained the main engine of growth. General government consumption grew by 0.5%QoQ, the highest pace in a year and private consumption accelerated modestly to 0.7%QoQ from 0.6%QoQ supported by rising real disposable income, easy financial conditions and improving labour market conditions. Gross fixed capital formation also picked up pace growing by 0.8%QoQ from 0.7%QoQ in Q4 2017 mirroring a significant improvement in construction investment. On the external front, exports grew by 1.3%QoQ, accelerating from 0.3%QoQ in the prior quarter mainly on the back of a rebound in services exports. Imports also grew by the same pace of 1.3%QoQ, the highest in the last four quarters, following a flat reading in Q4 2017. As a result, net trade had a positive contribution of 0.3pp to Q1 GDP growth. However, a number of recent sentiment surveys and economic indicators point to a modest slowdown in Q2. Among others, PMI manufacturing fell in May for the third month in a row to a nine-month low while industrial production disappointed in April.

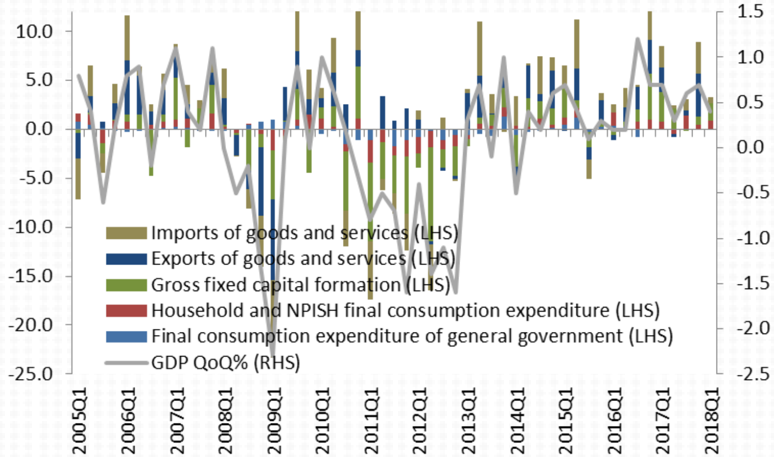
Political uncertainty is back in Spain

Conservative Mariano Rajoy was ousted as Spain's prime minister after he lost a no-confidence vote in Parliament on 1 June filed by Pedro Sanchez, the leader of the Socialist Workers' Party (PSOE), in the wake of corruption convictions against former members of the conservative People's Party (PP). The loss of no-confidence vote automatically made Sanchez the new prime minister. However, the socialist government may find it difficult to implement policy initiatives given that the party controls just 84 MPs in the 350-seat parliament and early elections seems a likely scenario (elections ought to take place by July 2020). However, Spain is in a different situation from Italy. Recent polls suggest that, even if an early election is called, the three mainstream pro-EU national parties (PP, PSOE and Citizens) could secure altogether around 70% of the popular vote.

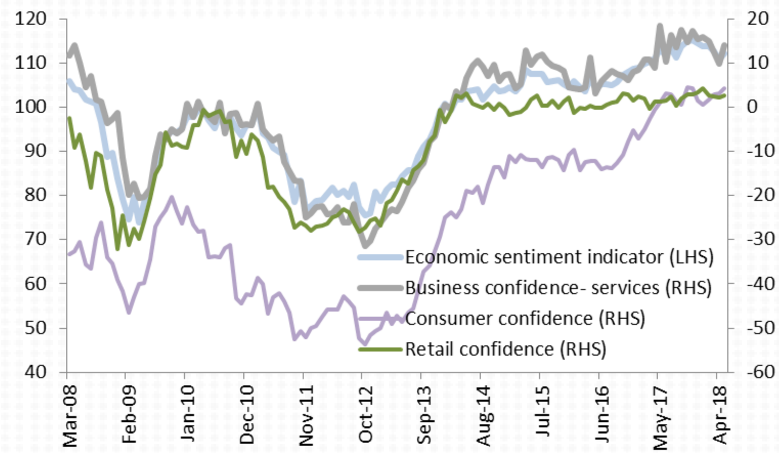
Portugal: Q1 2018 GDP slows largely due to external demand; likely bounce in Q2

Q1 2018 GDP slows largely due to external demand

Quarterly % change



Leading indicators point to a bounce in Q2 GDP



Source: European Commission, Eurostat, Eurobank Economic Research

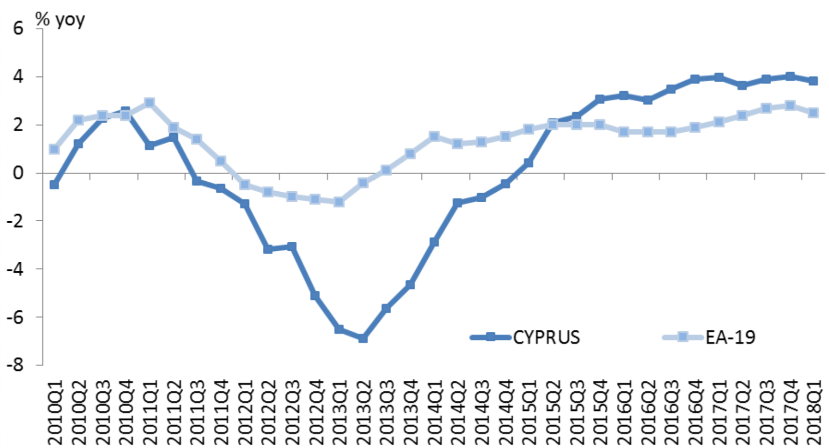
Latest Economic Developments

Preliminary Q1 2018 GDP figures confirmed that the economy lost some momentum with real GDP growing by 0.4%QoQ (2.1%YoY) compared to 0.7%QoQ (2.4%YoY) in the prior quarter and a 0.6% quarterly average growth rate (2.7%YoY) in 2017. Private consumption and gross fixed capital formation were the main growth drivers. The former remained resilient mainly thanks to easy financing conditions and an improving labour market, accelerating to 0.8%QoQ, double compared to 0.4%QoQ in the prior quarter. On a similar positive note, following a tepid growth rate of 0.8% in Q4 17, gross fixed capital formation rose by 1.8%QoQ in spite of a slowdown in construction activity. On the flipside, the external sector was largely behind the Q1 18 slowdown, dragging on economic activity. Export growth came in flat after rising 4.4%QoQ in the prior quarter while imports grew 0.6%QoQ following a 3.2%QoQ expansion in Q4 2017 which was the highest pace in more than two years. However, certain leading indicators suggest that the prospects in Q2 will likely be more upbeat. Economic sentiment indicator edged up 1.4 points in May to 112.2 and business sentiment in the services sector picked up to a three month high of 14.0. Furthermore, consumer confidence indicator rose to a seven-month high of 4.3 in May and there was slightly more optimism on the sector. While economic growth is expected to moderate from a 17-year high of 2.7% in 2017, it is anticipated to remain robust this year mainly supported by past reforms, healthy labour market dynamics and a flourishing tourism sector while a projected increase in the absorption of EU structural funds should underpin investment activity.

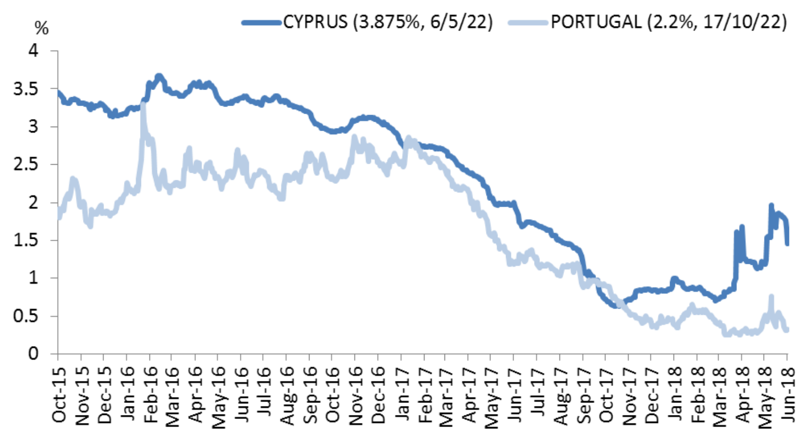
In spite of expectations for continuing robust economic expansion this year, sources of vulnerability remain. Portugal's private sector, especially corporations, remains highly indebted (Q4 2017: 176.2%-of-GDP). Gross public debt fell by 4.2pps to 125.7% in 2017 and while it is projected to further decline to 122.5% in 2018, it still leaves Portugal vulnerable to the conclusion of the ECB's asset purchase programme, planned for end-December 2018. Challenges also remain for the banking sector amid elevated non-performing loans that constraint the ability to provide new credit for investment.

Cyprus: Rapid pace of economic expansion continues in Q1-2018

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



Cypriot medium term bond yields have spiked on renewed domestic banking sector and EA periphery concerns



Source: Eurobank Research, National Authorities, Bloomberg

Latest Economic Developments

The provisional estimate of the first quarter signaled that Cyprus has embarked on a faster growth path than previously envisaged. Real GDP expanded by 1.0% on a quarterly basis bringing the annual rate of expansion to 4.0% YoY in Q1-2018 (revised upwards from 3.8% YoY in the flash estimate) on a seasonally adjusted basis compared to 4.0% YoY in Q4-2017 and Q1-2017. The private consumption rebound has remained strong (+0.4%QoQ/+3.9%YoY) on sustained sentiment improvement, visibly lower unemployment, a booming tourist sector, and the fiscal relaxation in the post-MoU era. Growth received support from the extraordinary performance of net exports (Exports:+24.3% YoY vs. Imports:+3.8% YoY). A stream of ongoing construction projects and imports of machinery and transport equipment have given investments a strong boost. Real GDP growth expanded by 3.9% YoY in 2017- a new post-Lehman high in 2017- up from 3.4% YoY 2016, compared to 2.0% YoY in 2015, and a cumulative drop of 10.1% over 2012-2014. This is among the highest growth rates between EA members and 1.7 times the average 2017 EA growth rate. Most forecasters believe the Cypriot economy is at its cyclical peak to be followed by a slightly lower GDP growth in 2018, yet we think risks to the upside are also present thanks to an investment boom.

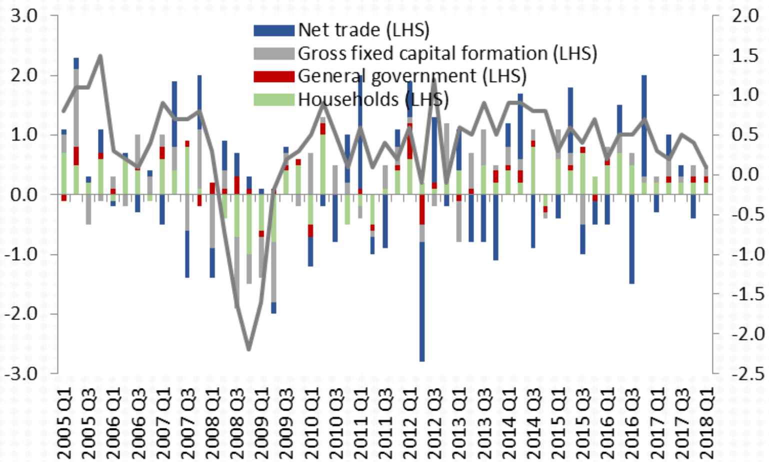
Risks & Challenges

The European Commission has just approved the government measures to facilitate the orderly liquidation of Co-operative Bank (CCB), the second largest bank in Cyprus. Those measures include the sale of some assets to Hellenic Bank and the wind down of the rest of CCB assets. Moreover, the government committed to strengthen the insolvency and foreclosures framework. Given that no party enjoys absolute parliamentary majority, the President will have to achieve concessions from other parties in the 56-seat parliament in order to pass legislation. This is not very reassuring given that there is a number of important pending structural reforms in the areas of privatizations, public and health sectors, while addressing the challenges of a still high bad loans stock.

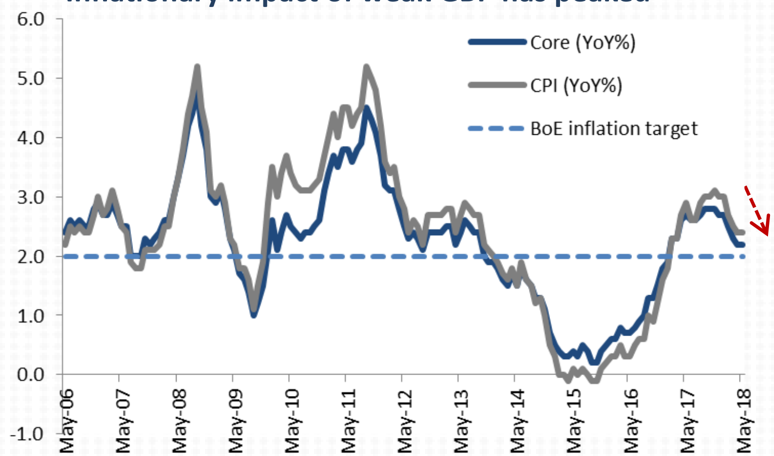
UK: Q2 2018 GDP expected to rebound but medium-term outlook remains uncertain

UK Q1 2018 GDP slows to 0.1%QoQ, the lowest since end-2012

Contribution to growth



Inflationary impact of weak GBP has peaked



Latest Economic Developments

The second Q1 2018 GDP release confirmed a slowdown in growth rate from 0.4%QoQ in Q4 2017 to 0.1%QoQ, the slowest since end-2012, partly due to temporary factors. Positive contribution came from private consumption and gross fixed capital formation, 0.2ppts each, while general government consumption added just 0.1ppts. The contribution of net exports to growth was zero as exports and imports dropped by a similar rate (0.5%QoQ and 0.6%QoQ respectively). On an annual basis, Q1 GDP fell to 1.2%, the lowest since Q2 2012, and 0.9pps lower compared to Q1 2017, reflecting the sharp drop in private spending contribution (to 0.7pps from 1.6pps). Activity data pertaining to Q2 paint a mixed picture. Consumer credit grew in April by the highest pace in around a 1 ½ year and retail sales volumes rose by a higher than expected 1.6%MoM following a sharp fall of 1.1%MoM in March on unusually cold winter weather. However, the breakdown of all three PMI surveys (services, manufacturing, construction) was less rosy than the headline, suggesting that, even though Q2 GDP is on course to rebound as weather effects fade, the medium-term UK outlook remains uncertain on the back of prevailing Brexit jitters. However, the voting pattern of the June MPC policy meeting and the more hawkish tone of the minutes have increased the risk of a rate hike later this year.

Brexit talks update

As things stand, the 28-29 June EU Summit is unlikely to make significant progress in Brexit talks. The UK government has not published yet its Brexit white paper where it would present its plans for the EU/UK future relationship to help shaping the debate at the meeting. Furthermore, the UK government's backstop proposed plan for the Irish border after the end of the transition period is unlikely to satisfy EU demands for a lasting solution. Meanwhile, the UK government won the so-called "meaningful vote" amendment to the EU Withdrawal Bill, averting a potential rebellion by pro-EU MPs in the Conservative Party after last-minute concession that it would be up to the Speaker to decide whether MPs could propose amendments to the government Brexit-related policy.

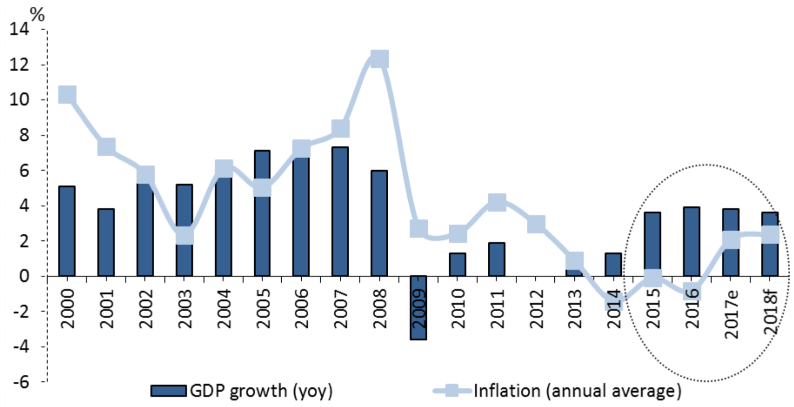
Source: ONS, Eurobank Economic Research

III. Selected CESEE economies

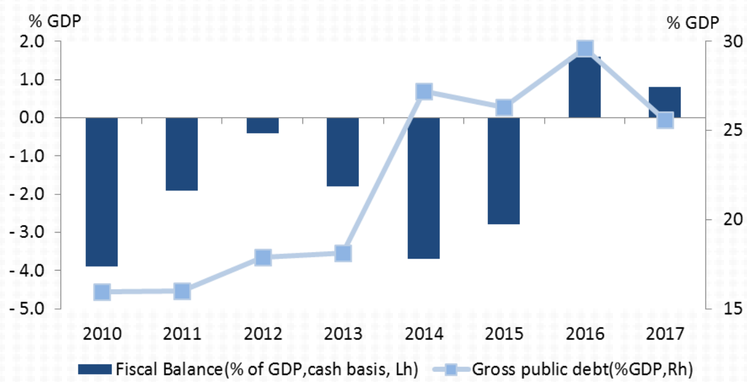
- Bulgaria
- Romania
- Serbia

Bulgaria: Below expectations output performance in Q1-2018

Growth dynamics are set to remain strong in 2018



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



Source: Eurobank Research, National Authorities

Latest Economic Developments

Real GDP expanded by 0.9% QoQ/+3.6% YoY in Q1-2018-coming out below market expectations-compared to 0.7% QoQ/+3.5% YoY in Q4-2017 vs. 0.9% QoQ/+3.7% YoY in Q1-2017. Final consumption remained relatively strong at +0.5% QoQ/+3.3% YoY in Q1 vs.+1.3% QoQ/+3.8% YoY in Q4-2017 driven by further labour market and sentiment improvement, accelerating credit activity dynamics, a more expansionary fiscal policy stance. Supported by a pick-up in EU funds utilization, investments accelerated to +4.8% QoQ/+7.2% YoY in Q1 vs. 0.2% QoQ/+4.5% YoY in Q4-2017. Net exports had a negative contribution as imports (-2.2% QoQ/+4.6% YoY) outpaced exports (+1.1% QoQ/+4.4% YoY). So far, high frequency data point to an acceleration of GDP growth in Q2-2018. Having expanded by 3.6% YoY in 2017, Bulgaria is now expected to register another year of strong-above potential-growth in 2018. The economy is operating at or close to full employment (the relevant balance of companies reportedly confronted with labour scarcity in the EU survey has climbed to 45% in Q2-2018 up from only 13% in Q4-2013). labour market tightening has led wages to rally-albeit from a very low base-by +7.1% YoY in Q1-2018 down from +10.6% YoY in Q4-2017.

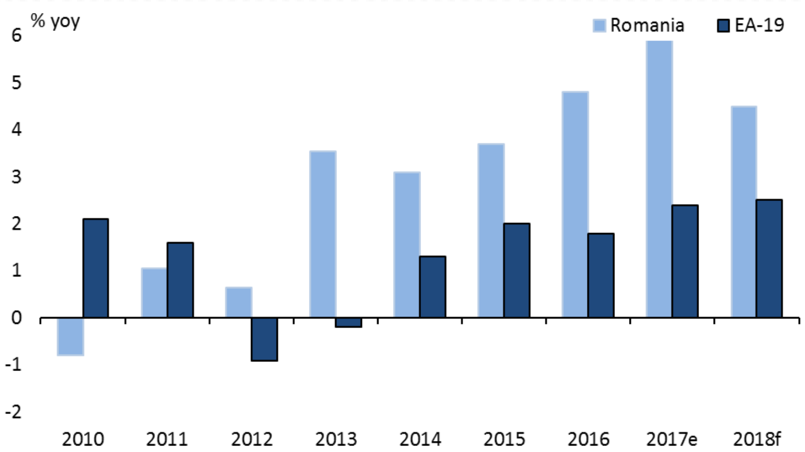
Risks & Challenges

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

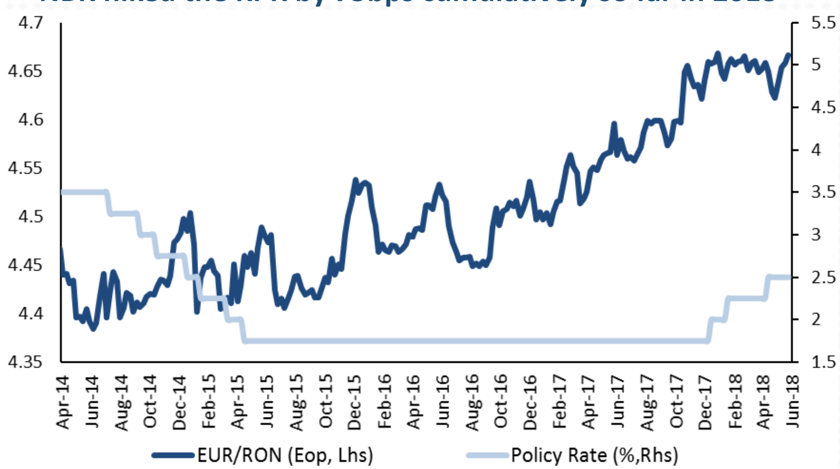
Romania: Sharp GDP slowdown in Q1-2018

Eurobank

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



NBR hiked the KPR by 75bps cumulatively so far in 2018



Source: Eurobank Research, National Authorities, Bloomberg

Latest Economic Developments

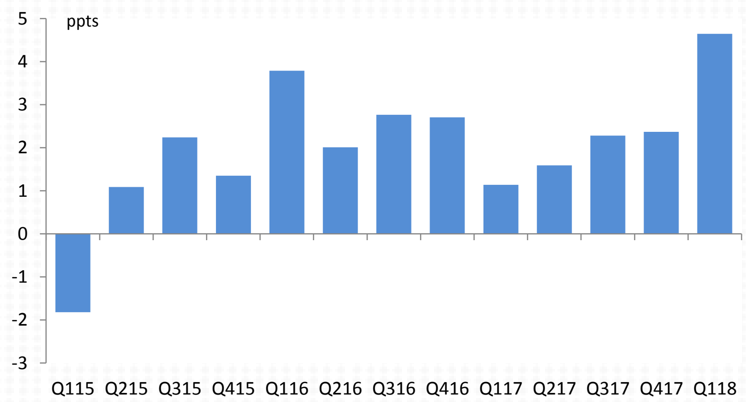
Real GDP came out flat on a quarterly basis bringing the annual rate of expansion down to 4.2% YoY in Q1-2018 on a seasonally adjusted basis compared to 6.6% YoY in Q4-2017 vs. 5.9% YoY in Q1-2017. The reading came out significantly below market median forecast (0.8% QoQ/5.5% YoY). Softer GDP performance was driven by contracting private consumption dynamics (-1.0% QoQ/+5.4% YoY in Q1-2018 down from +0.3% QoQ/+12.3% YoY in Q4-2017). High frequency indicators-particularly those related to sentiment-had predisposed that economic activity had levelled off in the previous quarters and private consumption dynamics were about to slow down. The reading was not an entire surprise for us confirming our earlier conviction that growth dynamics were unsustainable mirroring the overly pro-cyclical and pro-consumption expansionary fiscal policies. Lower growth dynamics are also expected to put more pressure on the fiscal side. The budget has been built upon a real GDP growth assumption of 5.5% which is unrealistic given the performance of the first quarter and will make the attainment of the fiscal target an even harder task. The budget deficit had already widened to 0.65% of GDP in 4M-2018 down from a surplus of 0.16% in 4M-2017. The past experience has proved that the public investment program is the first to suffer from under-execution in order to contain the fiscal slippage.

Risks & Challenges

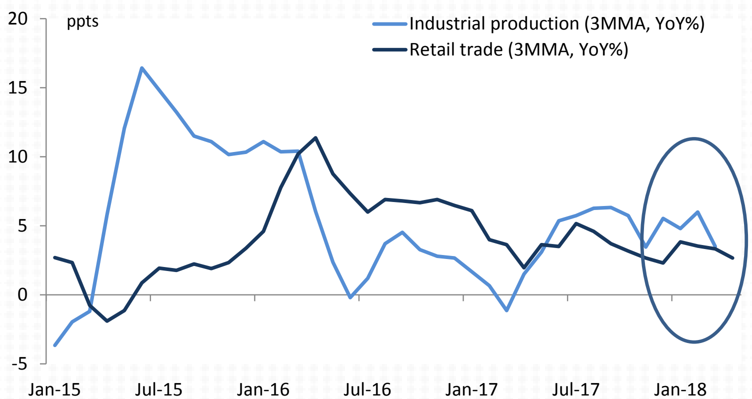
Risks are centered around the impact of current pro-cyclical and pro-consumption expansionary fiscal policies on the medium-term prospects. Running sizeable fiscal deficits coupled with low public investment spending is exacerbating inflationary pressures undermining not only the competitiveness and the growth potential of the country but also its ability to withstand an external shock. To make things worse, the tensions within the ruling PSD party threaten political stability and have a negative impact on the consistency and efficiency of implemented policies.

Serbia: Staff-level agreement reached with the IMF on a 30-month Policy Coordination Instrument (PCI)

Economic recovery continued in early 2018



High frequency data confirm some deceleration in Q2



Latest Economic Developments

Economic activity rose by 4.6%YoY in Q1 2018, the fastest pace in a decade, accelerating from 2.4%YoY in the prior quarter and a meagre 1.1%YoY increase over the same quarter a year earlier. Growth was primarily driven by private consumption, investments and inventories, while net exports provided a negative contribution as imports rose at a fastest pace than exports amid rising imports of investment equipment and intermediate goods in tandem with lower agricultural products' exports. From the production side, all sectors provided a positive input, with those of services and industry leading the way higher. Some deceleration in the coming quarters is expected as the Q1 reading was favored by base effects. However, real GDP growth is penciled in to accelerate by 3.5% for the whole of 2018 from 1.9% in 2017, supported by investments and private consumption.

Another positive factor for investor sentiment is the news that a staff-level agreement was reached with the IMF on a 30-month Policy Coordination Instrument (PCI). Following the successful completion of the previous 36-month €1.2bn IMF precautionary Stand-By Arrangement (SBA) in February this year such a deal was broadly anticipated, as had been indicated by recent government officials' comments. A loan-free agreement echoes plausible as the government has already demonstrated throughout these three years under the SBA its own-financing capability, having treated the current programme as precautionary. Meanwhile, such a deal suggests continuation of reforms and provides a valuable policy anchor going forward. Yesterday's agreement is subject to approval by IMF Management and Executive Board, which is tentatively scheduled for mid-July.

Source: Eurobank Research, National Authorities

IV. Special Focus: Turkey

Special Focus: Turkey

The Central Bank of Turkey delivers hefty tightening in an attempt to support the lira

On June 7th, the Central Bank of Turkey (CBRT) delivered a second consecutive - in the last two months - rate hike to support the lira.	In an emergency meeting in May 22, CBRT had unexpectedly raised the Late Liquidity Window (LLW) lending rate by 300 bps to 16.50%. A few days later, it announced its decision to simplify its operational monetary policy framework by adopting the 1-week repo as the key policy rate, setting it equal to the funding rate (16.50%) with an interest rate corridor of 150 bps below/above, and raised the 1-week repo by another 125bps at its scheduled MPC meeting on June 7th to 17.75%.
Turkish assets have come under significant pressure over recent months	As of June 15, the lira remained 20% weaker against the USD and ca 4% higher from a record low of 4.9221/$ hit in late May. The main BIST 100 stock index has lost more than 12% since the beginning of the year. Meanwhile, the yield of the local currency-denominated benchmark government 10-year bond spiked to a record high of 15.3% in late May, from levels around 12% in the beginning of the year, and Turkish 5-year CDS spreads have spiked to near 280bps, their higher level in 1 ½ years, vs. 165bps at the end of last year.
Idiosyncratic factors have been mostly at play	Concerns about heightened, double-digit and well above the official target inflation in tandem with the lack of more aggressive Central Bank monetary policy response have taken a toll on the country's financial assets. Notwithstanding the aforementioned, global developments have also weighed on the Turkish currency. The external environment of a firmer US dollar over recent months and the ongoing monetary policy normalization of major Central Banks around the globe do not bode well for the lira, weighing on risky assets and their high yield allure
Macroeconomic policies have been primarily guided by electoral considerations.	An excessive emphasis has been placed on growth in an effort to increase the probability of the ruling party leader to get reelected in the President's post and concentrate more executive powers around him under the new constitutional amendments. Pro-cyclical government stimulus, which is bound to eventually fade away, supports growth at the expense of higher inflation.
Rating agencies have raised the red flag over Turkey's economic vulnerabilities	Reflecting the ongoing deterioration in Turkey's domestic macroeconomic fundamentals, S&P unexpectedly downgraded in early May the country's long-term sovereign rating to BB- from BB, with a stable outlook. Later that month, Fitch warned that greater erosion of monetary policy independence would put further pressure on Turkey's sovereign credit profile. Last but not least, Moody's placed the Ba2 long term sovereign rating under review for downgrade.

Special Focus: Turkey

Change in the government/CB policies balance mix urgently required in the post-elections era

The economy is overheating	The strong GDP performance of 2017 (+7.4% YoY, above potential) was mostly driven by fiscal stimulus and buoyant credit expansion and favored by base effects, giving way to a sharp slowdown in 2018 (4-4.5% YoY). GDP growth came at 7.4% /7.1% YoY in unadjusted/seasonally adjusted terms, with private consumption (+11.0% YoY), government consumption (+3.4% YoY) and gross fixed capital investment (+9.7% YoY) strengthening further. In contrast, net exports performance entered further in the red as exports performance continued to be weak (+0.5% YoY) against that of imports (+15.6% YoY). Net exports trimmed 3.6ppts off the headline figure, which is the largest negative contribution since Q2-2011.
Any tightening of fiscal policy can only take place after the elections	The fiscal position of Turkey is broadly healthy, anchored by a low -for EM peers standards- public debt (28.5% of GDP in 2017) and a relatively low fiscal deficit (general government deficit at 2.2% of GDP). In an election year, with fiscal risks skewed to the upside, the general government deficit is expected to end around 1ppt of GDP higher in 2018. On the negative side, the growing size of contingent liabilities arising from the PPP activities and the Credit Guarantee Scheme (7% of GDP) is a medium-term concern that necessitates attention and future action.
Rising external imbalances make it harder to refinance	The country has a high energy import dependency, mainly oil and natural gas, with only 26% of total energy demand met domestically. Indicatively, the CAD already widened to a 6-year high in 2017 (5.6% of GDP), wider compared to most EM peers, and is expected to rise further above 6% in 2018. Financing relies heavily on portfolio inflows, which are highly volatile and subject to sudden shifts in investor sentiment. Gross external financing requirements are elevated, hovering around levels of 30% of GDP, with gross external debt penciled in near 70% of GDP, mostly earmarked towards short-term maturities and with its bulk concentrated around private creditors.
Inflation has been rallying in double digits	Headline inflation has remained in double-digits since early 2017 (headline CPI at 1.62% MoM/12.15% YoY in May) and well above the 5% official target, having reached a 14-year high of 12.98%YoY in November 2017. Core inflation climbed to an all-time high at 12.6% YoY in May, up from 12.2% YoY in April.
The banking sector is increasingly confronted with higher funding costs, constraining credit growth	The rising funding costs stemming from the lira's depreciation, higher FX borrowing costs in global markets and the fading impulse of credit guarantees are expected to put a break on credit dynamics in 2018, and subsequently on economic growth, a trend which is already evident in the numbers of Q1. Although the domestic banking sector is in relatively good shape with high capital buffers, it will likely be the first to suffer in the downturn.

Special Focus: Turkey

Change in the government/CB policies balance mix urgently required in the post-elections era

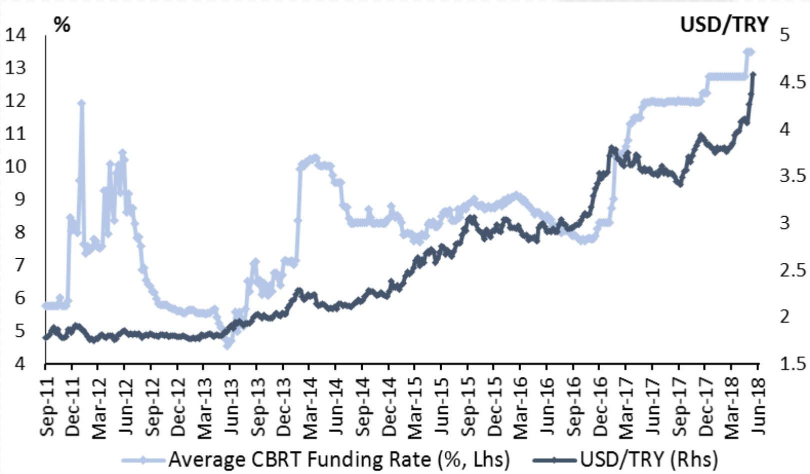
The post-election landscape still entails significant downside risks for the macro outlook

On the positive side, the elections outcomes will shape policy outcomes, thus reducing policy uncertainty and bringing more policy clarity. From that point of view, the leadership of Turkey will have to respond to current investor concerns by providing a new coherent and credible macro framework.

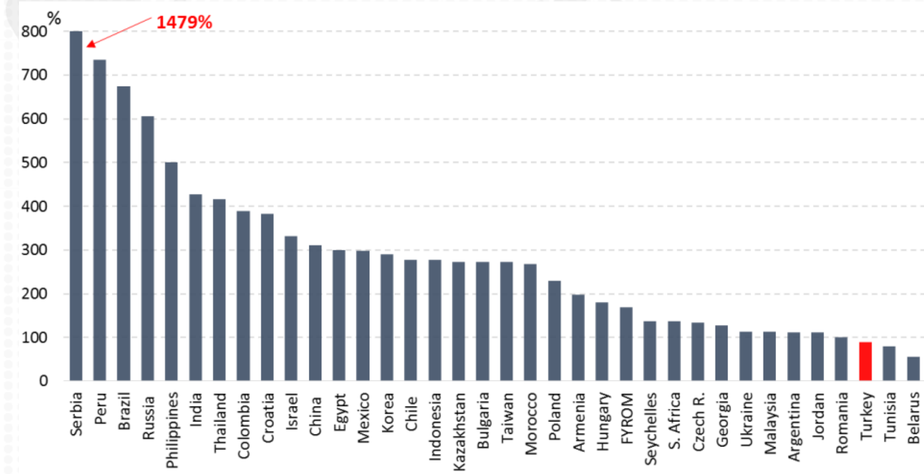
On the negative side, the elections' outcomes will neither signal the end of the political cycle, nor will they eliminate political tensions. Firstly, municipal elections are scheduled for the first quarter of 2019. Secondly, political tensions between the ruling AKP party and the opposition parties will remain elevated because the transition to the Presidential system is widely seen as an attempt to increase the concentration of executive powers around the President.

Unless there is a fundamental change in the government/Central Bank policies balance mix after the elections, risks for the assets remain skewed to the downside in the months ahead. Investor sentiment towards Turkish assets remains contained, while there is an increasing awareness of the inappropriate macroeconomic policies' mix and more light is being shed on the long-term structural problems of the Turkish economy

The Lira has come under intense depreciation pressure in the last months



FX Reserves (%) of External Debt Repayments



Source: National Statistics, IMF, Eurobank Research, Reuters

V. 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	3.8	3.8	3.7	3.0	3.3	3.2									
Advanced Economies															
USA	2.3	2.8	2.6	2.1	2.3	2.2	4.4	3.9	3.5	-2.4	-2.7	-2.8	-4.9	-5.3	-5.9
Eurozone	2.4	2.1	1.9	1.5	1.5	1.6	9.1	8.4	7.9	3.5	3.4	3.4	-0.9	-0.7	-0.6
Germany	2.2	2.3	2.1	1.7	1.6	1.8	3.8	3.6	3.5	8.0	7.9	7.6	1.3	1.2	1.4
France	1.8	2.0	1.8	1.2	1.7	1.4	9.4	8.9	8.3	-3.0	-2.9	-2.7	-2.6	-2.3	-2.8
Periphery															
Cyprus	3.9	3.9	3.6	0.7	0.5	1.0	11.1	9.5	8.0	-6.7	-7.1	7.8	1.8	1.7	1.7
Greece	1.4	1.8	1.8	1.1	0.7	1.1	21.5	19.8	18.0	-0.8	-0.7	-0.6	0.8	0.4	0.2
Italy	1.5	1.4	1.2	1.3	1.2	1.4	11.2	10.8	10.6	2.8	2.6	2.6	-2.3	-1.7	-1.7
Portugal	2.7	2.3	2.0	1.6	1.2	1.5	9.0	7.6	6.7	0.5	0.6	0.6	-3.0	-0.9	-0.6
Spain	3.1	2.8	2.3	2.0	1.6	1.6	17.2	15.5	13.8	1.8	1.5	1.6	-3.1	-2.5	-2.0
UK	1.8	1.5	1.4	2.7	2.5	2.0	4.4	4.4	4.5	-4.1	-3.7	-3.4	-1.9	-2.1	-1.7
Japan	1.7	1.2	1.0	0.5	1.0	1.0	2.9	2.8	2.7	4.0	3.8	3.7	-4.2	-3.3	-2.8
Emerging Economies															
BRICs															
Brazil	1.0	2.4	2.5	3.5	4.0	4.2	12.9	11.8	11.0	-0.5	-1.5	-1.8	-8.9	-7.5	-6.8
China	6.9	6.6	6.3	1.6	2.5	2.5	3.9	4.0	4.0	1.3	1.1	1.0	-3.7	-2.6	-2.5
India	7.1	6.6	7.4	3.3	3.7	4.5		*NA*		-1.5	-1.7	-1.8	-3.5	-3.5	-3.3
Russia	1.5	1.8	1.7	3.7	2.9	4.0	5.2	5.0	5.0	2.5	3.0	2.5	-1.7	0.2	0.0
CESEE															
Bulgaria	3.6	3.7	3.5	2.1	2.4	2.7	6.3	5.5	5.3	4.5	3.0	3.0	0.8	-1.0	-0.5
Romania	7.0	4.5	4.0	1.3	4.5	3.5	4.9	4.5	4.4	-3.5	-4.0	-4.0	-3.0	-3.5	-3.8
Serbia	1.9	3.5	3.5	3.2	2.0	3.0	12.5	11.5	11.0	-5.7	-5.3	-5.2	1.2	0.6	0.5
Turkey	7.4	4.5	4.1	11.1	11.0	9.5	10.9	10.5	10.5	-5.6	-6.0	-5.7	-2.0	-2.5	-2.4

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

Eurobank FX Forecasts

	2018			2019	
	Current	September	December	March	June
EUR-USD	1.1554	1.1650	1.17	1.17	1.18
USD-JPY	109.74	110.00	110.00	111.00	112.00
EUR-JPY	126.79	128.15	128.70	129.87	132.16
GBP-USD	1.3182	1.3300	1.3400	1.3500	1.3500
EUR-GBP	0.8765	0.8759	0.8731	0.8667	0.8741
USD-CHF	0.9952	0.9957	1.0000	1.0085	1.0169
EUR-CHF	1.1499	1.1600	1.1700	1.1800	1.2000
USD-CAD	1.3243	1.3100	1.3100	1.3000	1.3000
AUD-USD	0.7362	0.7400	0.7500	0.7500	0.7600
NZD-USD	0.6899	0.7000	0.7100	0.7100	0.7200
EUR-SEK	10.3215	10.2500	10.2000	10.0000	10.0000
EUR-NOK	9.4893	9.5000	9.5500	9.6000	9.6000

Source: Eurobank FX Trading

Eurobank Fixed Income Forecasts

	2018			2019	
	Current	September	December	March	June
USA					
Fed Funds Rate	1.75 -2.00%	2.00-2.25%	2.25-2.50%	2.25-2.50%	2.50-2.75%
1 m Libor	2.08%	2.23%	2.51%	2.54%	2.68%
3m Libor	2.32%	2.48%	2.63%	2.75%	2.85%
2yr Notes	2.50%	2.63%	2.70%	2.75%	2.77%
10 yr Bonds	2.86%	2.90%	2.95%	3.00%	3.05%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.32%	-0.30%	-0.29%	-0.28%	-0.25%
2yr Bunds	-0.63%	-0.60%	-0.57%	-0.50%	-0.46%
10yr Bunds	0.36%	0.45%	0.51%	0.59%	0.62%
UK					
Repo Rate	0.50%	0.50%	0.75%	0.75%	0.75%
3m	0.63%	0.77%	0.85%	0.93%	1.00%
10-yr Gilt	1.27%	1.40%	1.44%	1.49%	1.52%
Switzerland					
3m Libor Target	-0.75%	-0.75%	-0.75%	-0.70%	-0.70%
10-yr Bond	-0.01%	0.02%	0.04%	0.08%	0.12%

Source: Bloomberg (market implied forecasts)

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