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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:** Growth momentum remains on a strong footing, with easier fiscal stance offsetting the impact of protectionist measures
- **EA:** Resilient domestic demand but the manufacturing sector weakens amid escalating global trade frictions
- **UK:** Growth to remain lackluster amid lingering Brexit uncertainty; Brexit talks at a crucial stage
- **EM**: Trade war concerns and higher world energy prices weigh on the growth outlook of the 2H-2018
- **CESEE**: Economic activity remains on a healthy track in most countries of the region in Q2-2018

Policy Outlook

- **USA:** One more rate hike in 2018, followed by at least two more until the end of 2019
- **EA:** In spite of the recent uptrend in wage growth, interest rates to remain at their present levels “at least through the summer of 2019”
- **UK**: BoE waits for greater clarity from Brexit negotiations before resuming its rate tightening cycle
- **CESEE:** With a few notable exceptions, monetary policies remain broadly accommodative across the region

Summary

Global growth remained solid in H1 2018, but the expansion seems to have peaked. Intensifying downside risks related to rising protectionism & vulnerabilities in EMs. The US economic outlook remains healthy, but growth projections for other advanced economies have been revised downwards

Markets

- **FX:** An optimistic Draghi has given EUR support with the USD losing some of its dominance. Trade wars remain a long term concern with EZ politics as always staging a challenging backdrop (Italian populist budget and German woes)
- **Government bonds:** August safe haven flows on EM jitters (Turkey, Argentina) were reversed in September with higher yields dominating and central banks a non event
- **EM:** Credit seems to have bottomed out for now as idiosyncratic stories (Turkey, Russian, Argentina) have temporarily faded. Trade wars and tightening US monetary conditions remain the biggest risk. The commodities rebound is also helping sentiment on the back of a softer dollar
- **Credit:** Credit spreads rallied since early September both in EUR and USD, with cash underperforming synthetics, as the primary market kicked in and new issues repriced curves with decent concessions. Main risks remain the ECB QE tapering, trade wars and USD rates

Key Downside Risks

- **Further escalation of trade tensions:** Recent comments by US and Chinese government officials suggest increased risks for a further escalation of the trade dispute ahead of the US midterm elections in early November, with a more negative impact on business confidence and global trade
- **No-deal Brexit scenario:** Material impact on the EU27 Member States, volatility in European assets
- **Higher oil prices**: Inflation outlook risks for the global economy
- **Intensifying EM vulnerability**: Idiosyncratic currency depreciation risks for Turkey and Argentina lead to a wider EM crisis

Macro Views

Eurobank

Latest Macroeconomic Developments & Outlook

World Economic Outlook		Global growth remained robust around 3.8% in the first half of the year supported by business investment and productivity growth, but the economic expansion seems to have peaked showing less synchronized patterns. Although the US economic outlook remains healthy boosted by easier fiscal policy, growth in Europe and Japan has probably past its peak, while the outlook in major emerging economies has deteriorated significantly. Meanwhile, intensifying downside risks have emerged, related to rising protectionism and higher oil prices. With global trade volume growth decelerating to around 3.0% in H1 2018, from 5.0% in 2017, global GDP growth projection has been revised downwards by 0.1pp to 3.7% in 2018, with downward revisions in the majority of G20 economies.
Developed Economies	**US**	Real GDP growth is projected at 2.9% in 2018 from 2.2% in 2017, before easing to 2.6% in 2019, with a gradual monetary policy normalization process. The strong labor market and lower income taxes should provide a substantial boost for consumer spending, while business investment should continue to increase amid strong corporate profits and labor shortages, albeit trade frictions are likely to act as a drag. A significant easing of US fiscal policy of ~1.0% of GDP in 2018-19 should more offset any economic costs of rising protectionism. Headline inflation should gradually trend higher to 2.5% in 2018 from 2.1% in 2017, as fiscal stimulus causes mild overheating and tariffs raise import prices, but core inflation should remain within the Fed's tolerance limits.
	Euro Area	Euro area economy slowed down in H1 2018, mainly attributed to a deterioration in the global trade cycle, adverse weather conditions and higher oil prices. Overall, underlying fundamentals are in line with above-trend growth of 2.0% in 2018 from 2.4% in 2017, with still easy financial and monetary conditions and mildly expansionary fiscal policy set to underpin domestic demand. Yet, risks of an escalation of trade war frictions and/or increased political uncertainty could weigh on sentiment and growth outlook.
	Periphery	With the exception of Portugal, EU periphery economies lost some momentum in Q2 partially affected by weaker external demand. However, output growth remains above estimated trend rates. Meanwhile, concerns about Italy's financial stability have intensified, while the latest political developments in Spain and Portugal have raised the risk of snap elections in both countries.
Emerging Economies	**BRICS**	In China, GDP growth slowed down by 0.1ppts to 6.7% in Q2-2018, the slowest rate of expansion since late-2016. The growth momentum is likely to decelerate further in the coming quarters due to global as well as local headwinds. In Russia, GDP growth is expected to have risen further to 1.6% YoY in Q2-2018 vs the revised 1.5% YoY growth in Q1-2018 mainly driven by higher consumer spending - stemming from strong wage growth ahead of the Presidential elections - and stronger industrial production data in April-May. In Brazil, local factors such as the intensifying elections uncertainty and the trucks strike have raised concerns on the pace of economic recovery. In India, growth accelerated to 7.7%YoY in Q1 2018 from 7.0%YoY in Q4 2017 supported by government consumption and construction amid rising external environment headwinds.
	CESEE	The second GDP growth estimates for Q2-2018 for the countries of our focus (Bulgaria, Serbia and Cyprus), surprised to the upside confirming that they remain on a healthy track. Private spending dynamics continued unabated despite the rising external environment uncertainties and the spike of food and energy prices, feeding a strong imports rise on the external side. Economic activity poised to show further signs of moderation in the coming quarters across the CESEE region. Those readings reinforce our earlier view that the said regional economies are most probably just about to reach or have already reached their cyclical peak.

Global Macro Themes & Implications

Theme	Implications
Escalating trade tensions	Following the first round of announced tariffs on imported solar panels and washing machines (20-50%) in January, the US Administration announced tariffs on imports of steel and aluminium (25% and 10%, respectively) in March from a wide range of countries while the EU and Canada implemented retaliatory measures. While the first two batches of tariffs did not target US trade with China, the US imposed an additional 25% duty on $50bn worth of imports from China, out of which $34bn effective on 6 July and $16bn implemented on 23 August. In response to the Chinese retaliation (higher tariffs on $110 billion of imports from the US), the US Administration imposed a 10% tariff on an additional $200bn imported goods from China (effective on 24 September and rising potentially to 25% as of next January), threatening for further trade restrictions on another $267bn in Chinese imports. If finally implemented, the US would have imposed duties on almost all Chinese imports (~$500bn according to 2017 data). Although there have lately been some signs of smoothing trade disputes following the meeting between the US President and the President of the European Commission in July and the new NAFTA arrangements between the US and Mexico, the risk of an escalation in trade tensions remains elevated. The US Administration has introduced a new investigation of imports of cars, trucks and auto parts (regarding their effects on national security), which could result in additional large auto tariffs possibly highly damaging to the US and the global economy. The already implemented protectionist measures are expected to have only a marginal effect on the US and global economic activity -subtracting around 0.1pp from both US and global growth in 2018- given that the targeted products constitute only a small part of total trade. Nevertheless, according to ECB's research on macroeconomic implications of increasing protectionism (https://www.ecb.europa.eu/pub/economic-bulletin/focus/2018/html/ecb.ebbox201806_01.en.html), an escalation of trade tensions could have significant adverse global effects; in a hypothetical scenario in which the US raises tariffs on all imports by 10 pts and its trading partners retaliate with a 10 pts tariff increase on their US imports, US real economic activity could be more than 2% lower than the baseline in the first year alone, while global trade could fall by up to 3% relative to the baseline.
Oil prices at their highest levels of the past four years on supply side concerns	Oil prices have been on a sustained rising trend in recent months driven primarily by supply-side concerns. Since early February 2018, when the spot price of crude WTI and Brent traded at 59.29 USD/bbl. and 62.59USD/bbl., respectively, prices have increased by more than 20% surpassing the thresholds of 70 USD/bbl and 80 USD/bbl, respectively and pushing prices to the highest levels in the last four years. Indeed, the WTI futures were trading around 72USD/bbl and Brent futures around 82 USD/bbl as of September 28, just off their four-year high. The recent spike in oil prices has been attributed to a number of factors: Geopolitics, along with relatively solid global demand from both EMs and developed markets, have been a catalyst. The US administration's decision to withdraw from the nuclear deal with Iran and impose sanctions on future buyers of Iranian crude as of November 2018 threatens to squeeze out the Iranian supply out of the world markets. Although there is limited international support for the sanctions, very few buyers – amongst them China whose stance is going to be critical – could resist or bypass them. On top, other significant suppliers – such as Venezuela and Libya – have encountered disruptions that limit their output. Additionally, the OPEC+ countries have neither taken any concrete action nor expressed any intention to increase production to meet the shortfall. Recent comments from the US administration that the country's strategic inventories will not be utilized to stabilize prices, have also weighed on market sentiment. The inaction has sparked fears of a supply side crunch with a growing number of market forecasters predicting even higher prices, possibly as high as 100USD/bbl.

Global Macro Themes & Implications

Theme	Implications
Italy's upward revision of its fiscal deficit targets could possibly increase tensions with the EC and trigger rating downgrades	Italy's government approved the updated Stability Programme on 27 September, with the government deficit-to-GDP ratio set at 2.4% from 2019 to 2021, the upper bound of the markets expectation range. Although Finance Minister Giovanni Tria insisted on keeping the 2019 budget target below the 2.0% of GDP threshold, there was intense pressure from the M5S and the League to raise it to 2.4%, entailing a fiscal expansion above 0.5pp of GDP that puts at risk the sustainable trajectory of the public debt level. The public debt projected over the period 2018-2021 will also depend on the real and nominal GDP growth projections, as well as the average servicing cost of the public debt. The update note to the Economic and Financial Document (NADEF) including the economic and public finance projections for real and nominal GDP growth, public debt, government deficit and the key spending and revenue components is expected to be published by 30 September. The NADEF will outline the key parameters for the 2019 draft budget to be submitted to Brussels by 15 October and to parliament by 20 October (must be approved by parliament by year end). The budget deficit target of 2.4% of GDP could lead to difficult negotiations with the European Commission (EC), as it constitutes a considerable increase with respect to projections agreed with the EC in the context of the Stability and Growth Pact in May (0.8% deficit in 2019). Meanwhile, the said deficit target, much higher than the rating agencies' projections, could trigger a downgrade of Italian sovereign securities, putting further pressure on Italian assets. Fitch, Moody's and S&P rate Italian sovereign debt BBB, i.e. two notches above the sub- investment grade (IG) level, while DBRS rates Italy BBB high, i.e. three notches above the sub-IG level, with a stable outlook. Nevertheless, Italy is under the surveillance of rating agencies; Fitch kept the BBB credit assessment of Italian sovereign debt unchanged on August 31, but revised the outlook from 'stable' to 'negative', a decision largely based on a projected deficit of -2.2% of GDP in 2019 (rising to -2.6% in 2020) in order for the government to maintain its key election campaign promises. Meanwhile, both S&P and Moody's are expected to complete reviews regarding Italy's creditworthiness by end-October, with the latter projecting a 2019 deficit of -2.1%.
Brexit talks hit impasse	With just over six months until the UK leaves the EU, Brexit talks are at a crucial stage. EU leaders rejected the UK government's Chequers plan at the 19-20 September informal EU Summit, as they consider it "cherry-picking" on behalf of the UK and warned that they are ready to cope with a hard Brexit if the UK does not accept to make concessions on trade and the Irish border issue. On her part, UK PM Theresa May acknowledged that Brexit talks have hit an impasse after refusing to accept the improved offer on the Irish backstop, arguing that it would damage the integrity of the UK. Adding to Brexit-related concerns, UK press reports suggested that some EU27 member states expressed support for a second Brexit referendum on the sidelines of the September informal meeting. Meanwhile, speaking during the annual Labour Party Conference (23-26 September), party leader Jeremy Corbyn declared that the party will vote against Theresa May's Brexit plan, while party delegates voted overwhelmingly for a motion making a second referendum on Brexit an option. Combined, these developments have undoubtedly reinforced fears over a no-deal Brexit. Assuming that the UK and the EU will finally manage to bridge their differences and seal a withdrawal agreement, its approval by the UK parliament will be a very tight vote. The UK government enjoys a parliamentary majority of just 8 seats and, given that that some hardline Brexiteers from the conservative party will vote against the PM's Brexit deal if they believe it is too soft, Theresa May should rely on support from some Labor MPs to get it through. The President of the European Council, Donald Tusk, set a deadline of 18 October for progress on the contentious issue of the Northern Ireland border with a view to reaching a political agreement at an extraordinary EU Summit in mid-November. However, the likelihood of the final deal being postponed at the ordinary EU Summit in mid-December seems highly likely. At the annual Conservative Party Conference that starts on 30 September and concludes on 3 October, Theresa May could be challenged as the party leader by hard Brexiteers.

Macro Themes & Implications in CESEE

Theme	Implications
Real GDP growth remains on a healthy track in the economies of our focus in Q2-2018	The second GDP growth estimates for Q2-2018 for the countries of our focus (Bulgaria, Serbia and Cyprus) surprised to the upside and confirmed that they remain on a healthy track. Now that the detailed breakdown for all the economies is available, it would be fair to say that the private spending dynamics continued unabated despite the rising external environment uncertainties and the spike of food and energy prices, feeding a strong imports rise on the external side. To that end, the economies of our focus continue to be among the top performers in EU-28.
Real GDP growth poised to moderate in the coming quarters in most economies of the CESEE region	Economy activity poised to show further signs of moderation in the coming quarters across the broader region. In most cases, high frequency and sentiment indicators point to further weakening both on quarterly and annual basis. Those readings reinforce our earlier views that regional economies most probably are just about to or have already reached their cyclical peak. A less favorable growth outlook for the EA-19, mounting global trade risks, higher commodity and global energy prices on top of the cyclical slowdown weigh on the growth prospects of the CESEE region.
Intensifying downside global trade risks will most probably have a negative impact on the growth outlook of the region	The threat of protectionism has a profound negative indirect impact on business sentiment and subsequently on investment decisions. From a regional point of view, the economies which are affected from the US trade tariffs- so far limited to the steel and aluminum industries- are mostly non-EU members (Russia, Turkey and Ukraine). Escalating trade risks through higher US tariffs on the European car manufacturing industry would have a more detrimental direct and indirect impact on the trade relationships of the CESEE economies. The impact would not be limited to the CEE-4 economies which specialize on automotive industry as conventional wisdom suggests but also have spillover effects to the broader region given the structure of the European manufacturing and automotive industry supply chain.
Different inflation paths allow for divergent regional Central Banks monetary policies	The rising trend of core and headline inflation metrics is uneven across the region allowing for different degrees of freedom in the respective Central Banks' monetary policies. With a few notable exceptions, namely the Central Banks of Russia and Turkey, the majority of Central Banks in the region maintain a 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. In addition, 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 inhibit the rallying inflation and stabilize the Lira.

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 August and September, with paper of shorter and medium term maturities, namely between 3 to 7 years, experiencing yield rises of 2-4 bps, while the longer tenors saw their yields drop by 2-3 bps. The Bulgarian Ministry of Finance continued its recent policy and did not hold any auctions in August as well as in September and has not shown any indication of a possible offering in October. Eurobonds yields rose across the board, with the shorter 2024 tenor registering a 8.6 bps spike, while the rest of the shorter tenor yields rose within the range of 2-3 bps. Longer maturities such as 2028 and 2035 managed to see their yields rise by 6 bps each.
Serbia	• Despite being more volatile than usual, EUR/RSD still holds into 5-month old range, going back and forth within 118.0 and 118.50. In terms of flows, summer is traditionally heavier on EUR “bid” side as lots of Euro-indexed loan disbursements are distributed among clients. Clearly, the aforementioned pressure is handled via NBS interventions. Whenever Central bank notices that market is under strong imbalance (big EUR supply against very weak demand), intervenes. That said, Central bank, in the course of 5 months, bought EUR 1.02bn from commercial banks successfully, preserving the stability of the FX rate. Entering September, situation was a bit more balanced which can be seen in the significant decrease of NBS interventions (only EUR 25mn). What’s more important, Central bank, for the first time since end of January, intervened by selling Euros thus fortifying further the long established range. • From an economic developments point of view, Serbia has nothing to worry about and therefore we do not expect that we are going to see major change of the course that could lead to a dinar depreciation. Moreover, speed of progress and EU membership is directly correlated to the speed of resolving issues with ethnic Albanians in Kosovo. At the time of writing, we still see that both sides have very different views and, in our opinion, more time will be needed for a commonly accepted solution. • In terms of yields, the cautious stance of the NBS is giving indications that the easing cycle has ended. Monetary board members have kept policy rate unchanged in the last 5 meetings and it seems unrealistic that they can deliver fresh while ECB is preparing the ground for normalizing its extremely loose policy. Despite overall EM turmoil in recent months, we do not expect to see drastic changes in Serbia when it comes to the bond market (RSMFRSD). The improvement in macroeconomic fundamentals (rising GDP growth, further current account deficit compression) and efforts to resolve the Kosovo issue will all become a “cushion” that could shield government bonds if an unfavorable repricing takes place in EMs.

Markets View

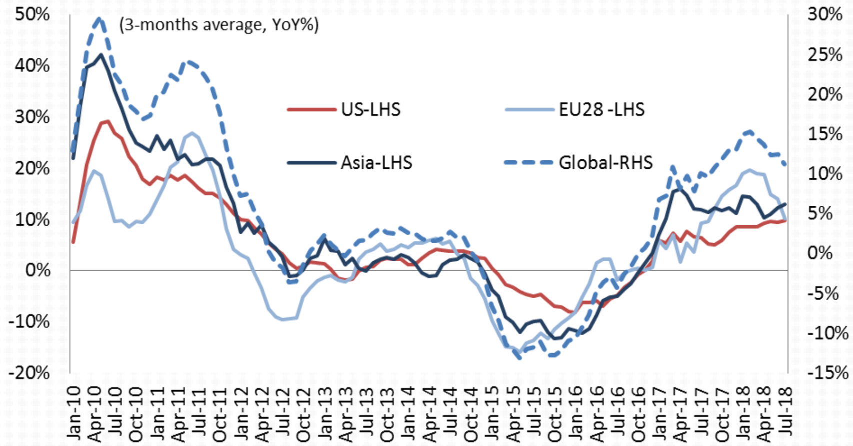
Asset Class	Outlook
Foreign Exchange	**EUR/USD**: A confident Draghi gave EUR sentiment a boost with bids emerging against USD (EUR/USD briefly broke 1.18) despite concerns over the Italian budget and still lackluster regional growth. Pre-FOMC adjustment and headlines highlighting Italian fiscal concerns pushed the pair below 1.17 with a disappointing Italian deficit decision (at 2.4% of GDP) adding to the pressure. A strong US economy could give USD further support but with corporate repatriation slowing and negative broad balances the USD rally looks contained. **USD/JPY**: Japan avoiding new US auto tariffs during trade talks only momentarily produced some positive momentum for the JPY. The Italian budget decision put European politics again in the forefront supporting a USD bid and sending the pair to a high of 113.62. USD/JPY should maintain its gradual advance as long as risk on sentiment persists despite concerns about the longer term economic impact of Fed rate hikes and global trade frictions keeping markets in tenterhooks. **GBP/USD**: GBP/USD drifted higher to 1.3218 in the run up to the FOMC meeting, followed by a retracement to 1.3108 the next day as the marked differences between the monetary tightening in the US and the UK were further reinforced. Brexit headlines dominate sentiment post the failed Salzburg meeting with PM May insisting that the Chequers plan remains the only viable option. Strong support remains down at 1.3035, with large scale offers are perched up above 1.3300.
Government Bonds	**EU:** September started with a general risk off move driven by the weakening of TRY, the widening of BTP spreads as well as some earning disappointments. Cash richened vs swaps with 2s/10s bull flattening. Since then the ECB delivered what was expected with President Draghi sounding optimistic. The market reacted with higher yields and steeper curves. Price action looks currently to be dictated by the unfortunate outcome of the Italian budget renewed weakness driven by regional political uncertainty as the ousting of parliamentary leader Kauder exposed Chancellor Merkel's fragility. **US:** Yields increased from the August lows despite the Trump administration announcing a 10% tariff on $200bn of Chinese imports raised to 25% at the beginning of next year. The FOMC, as expected, raised its target rate for Fed Funds by 25bps to 2.00% - 2.25%. USD curves remain flat with 10s/30s swaps close to 0bps as markets perceived a less certain Fed over the medium term and pension fund flows still dominate the long end of the curve. 3.10% in the 10yr and 3.25% in the 30yr treasuries remain key levels.
EM hard currency debt	A reversal in the USD strength and commodities bottoming out helped a reversal of the recent widening in spreads and supported a rally in some cases. Turkey, Argentina and Brazil all stabilized after positive developments in each case, which also helped the rest of the EM space to recover some of its recent losses and outflows to reverse. Brazil elections an important development to watch in the short term. Trade wars, potentially lower commodity prices and higher USD rates remain the headwinds, despite the recent recovery. Valuations are at fair levels since the macro picture remains supportive. We are mildly bullish into year end, even after the recent rally but see any further rally as opportunity to decrease exposure.
Corporate credit	Credit spreads rallied significantly from early September both in EUR and USD space, with CDS indices outperforming cash and basis closing significantly to almost pre ECB buying levels. Interestingly, primary market was also active on both sides of the Atlantic, especially in the US (as well as reverse Yankees) with decent concessions and good demand from investors. Risk appetite was generally firm while dispersion across sectors performance increased. In terms of risks, the markets have digested relatively well the trade war escalations between the US and China but have reacted negatively to the Italian budget announcement given more optimistic expectations. The ECB buying program reduction is partly priced in spreads but has further to go. Going forward we expect further repricing into EUR credit according to idiosyncratic stories. EUR credit looks more interesting post the significant USD credit rally and the sweet spot seems to be the 5-10yrs area of the curve.

II. Advanced Economies

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

USA: Growth momentum remains on a strong footing, with easier fiscal stance offsetting the impact of protectionist measures

Despite the downtrend in global merchandise trade growth YTD, US seem unscratched by rising trade frictions



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

USA	2018	2019	2020	2021	Longer run
	Median* (percent)				
Change in real GDP	**3.1**	**2.5**	**2.0**	**1.8**	**1.8**
June projection	2.8	2.4	2.0	n.a.	1.8
Unemployment rate	**3.7**	**3.5**	**3.5**	**3.7**	**4.5**
June projection	3.6	3.5	3.5	n.a.	4.5
PCE inflation	**2.1**	**2.0**	**2.1**	**2.1**	**2.0**
June projection	2.1	2.1	2.1	n.a.	2.0
Core PCE inflation	**2.0**	**2.1**	**2.1**	**2.1**	
June projection	2.0	2.1	2.1	n.a.	
Fed Funds Rate	**2.4**	**3.1**	**3.4**	**3.4**	3.0
June projection	2.4	3.1	3.4	n.a.	2.9

Source: US Census Bureau, Federal Reserve, Bloomberg, Eurobank Research

Latest Economic Developments

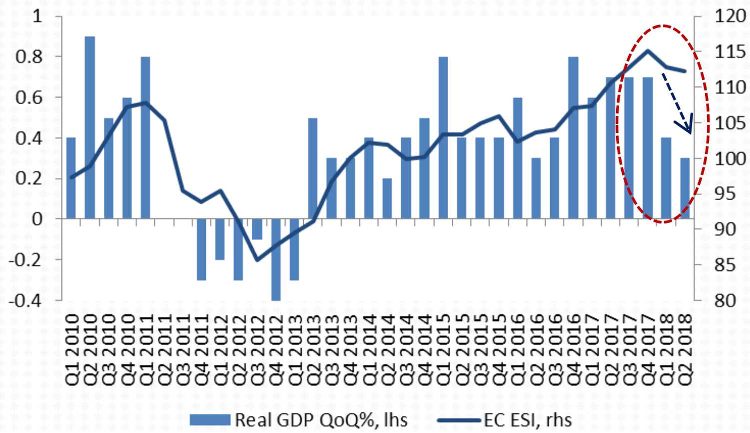
Although real economic growth is expected to moderate from its strong reading of 4.2%QoQ saar in Q2, it should remain on a solid footing around 3.0% in H2 2018. To this end, the ISM manufacturing index skyrocketed to a 14-year high in August, driven by production, new orders and employment. Even though US protectionist policies have weighed on export orders which fell for the second consecutive month, manufacturing confidence seems to be well supported by firm domestic demand. Although US households and firms remain overwhelmingly concerned about higher durable costs, August retail sales and IP data point to a solid growth trajectory for Q3. Meanwhile, the strong labor market and income tax cuts should continue to support robust consumer spending, with initial jobless claims not far from a 50-year low and August nonfarm payrolls growing by a healthy 201k. Business investment should continue to increase, encouraged by strong corporate profits and labor shortages, albeit trade frictions will act as a drag. A significant easing of US fiscal policy of ~1.0% of GDP in 2018-19 should more offset any economic costs of rising protectionism.

Central Bank Watch

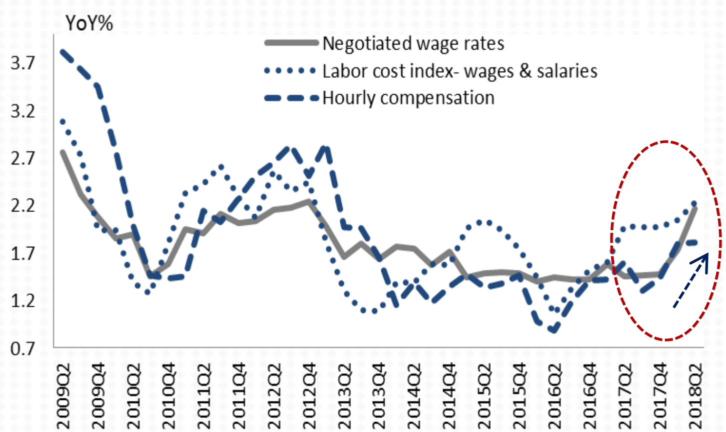
As widely expected, the FOMC raised the target range for the fed funds rate by 25bp to 2.00-2.25% at its September meeting. The accompanying statement reiterated that risks to the economic outlook, including rising trade tensions, housing and emerging markets volatility, appear roughly balanced. Nevertheless, the strength in underlying growth momentum has prompt the FOMC to revise higher its 2018 and 2019 growth outlook (to 3.1% and 2.5%, respectively, from 2.8% and 2.4% in June). Meanwhile, the Fed removed a sentence that indicated that the stance of monetary policy remains “accommodative”. Given that the projected median policy path remained largely unchanged relative to June, the said removal likely suggests that Fed’s policy is proceeding in line with expectations. Overall, we continue to expect that the Fed will hike rates one more time this year, followed by at least two more until the end of 2019 which would bring the target range for the fed funds rate to around 3.00%.

Euro area: Resilient domestic demand but the manufacturing sector weakens amid escalating global trade frictions

GDP and confidence indicators seem to have peaked



Wage indicators have recently trended upwards



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

Latest Economic Developments

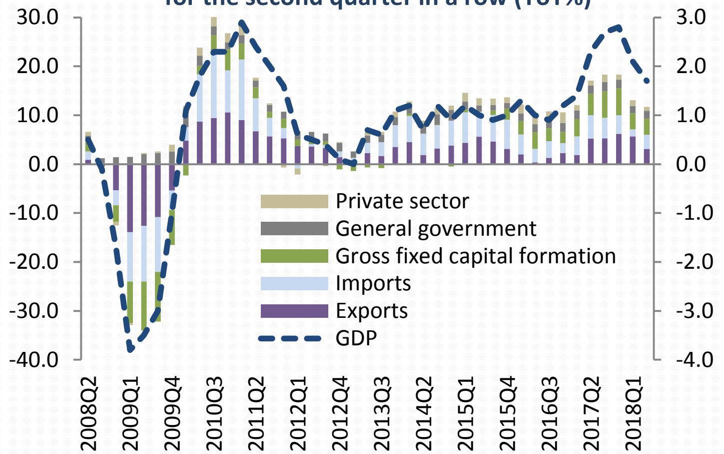
Euro area economy slowed down in H1 2018, mainly attributed to a deterioration in the global trade cycle, adverse weather conditions and higher oil prices. Meanwhile, industrial production fell by 0.8%MoM in July for a second month in a row, with widespread weakness across sectors. Nevertheless, latest leading indicators point to growth stabilization around 0.4%QoQ, with September PMI Composite index declining slightly (-0.3pts MoM) to 54.2 points but remaining in expansionary territory above the 50-threshold and broadly unchanged over the last five months. The divergence between the manufacturing and the services sectors is evident, with manufacturing export new orders falling at their lowest level since June 2013 possibly mirroring a high level of uncertainty amid escalating trade tensions and services rising to a four-month high on the back of strong domestic demand. Overall, underlying fundamentals are in line with above-trend growth of 2.1% in 2018 from 2.4% in 2017, amid still easy financial and monetary conditions and mildly expansionary fiscal policy.

Central Bank Watch

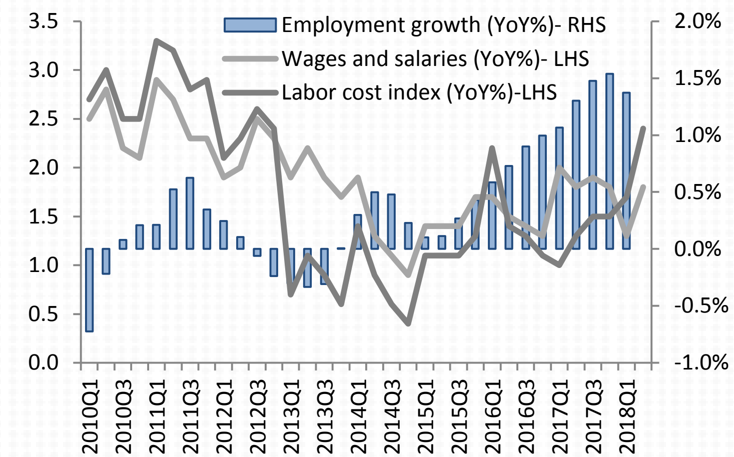
At its Sept. meeting, the ECB retained its monetary policy unchanged regarding interest rates, QE and reinvestment policy, with a downgrade to its growth forecast by 0.1pp for both 2018-19 to 2.0% & 1.8%, respectively. While indicating that domestic demand is still resilient and risks to the growth outlook remain broadly balanced, President M. Draghi highlighted that the growth downgrade was mainly attributed to weaker external demand and uncertainty surrounding rising protectionism. With no changes to headline (at 1.7% through 2020), core CPI was revised 0.1pp lower for 2019-20 to 1.5% & 1.8% (2018f: stable at 1.1%). However, two weeks after the Sept. ECB meeting, ECB President noted that that the GC expects a “relatively vigorous” acceleration in underlying inflation and that this uptrend “is expected to continue over the coming months as the tightening labor market is pushing up wage growth”. In spite of the recent uptrend in wage growth, we do not expect a rate hike before Q3 2019. Should EU/US trade war tensions intensify, the ECB could adopt a more cautious stance and keep interest rates unchanged in 2019.

France: Positive growth momentum continued in Q2 but at a modestly slower pace

France's GDP growth slowed in Q1 2018 for the second quarter in a row (YoY%)



Strong employment growth bodes well for household income



Source: Eurostat, ECB, Eurobank Economic Research

Latest Economic Developments

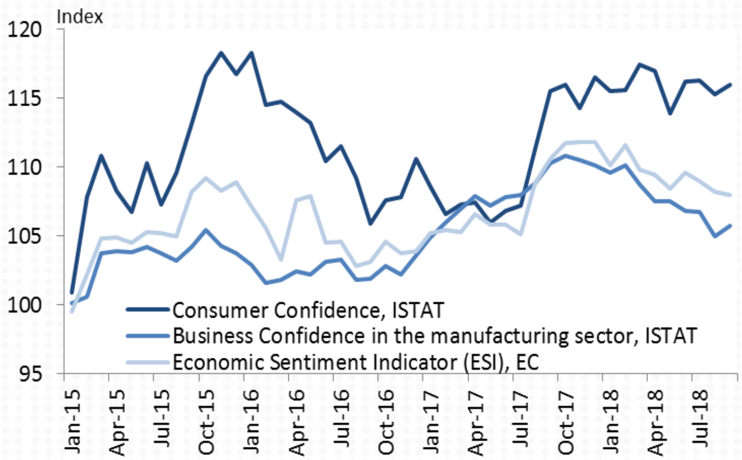
France's Q2 2018 GDP slowed down for the second quarter in a row to 1.7%YoY (0.2%QoQ) from 2.1%YoY in Q1 2018 (0.2%QoQ) and 2.8%YoY in Q4 2017 (0.7%QoQ). Despite steady improvement in labor market conditions, household spending disappointed growing by a weak 1.0%YoY in H1 2018, mainly on the back of increased inflation pressures as a result of higher oil prices and new indirect taxes. A decrease in external demand driven by intensified global trade woes, a pause in inventory rebuilding and a number of temporary factors such as cold weather and strikes, were also behind France's economic slowdown in H1 2018. While H1 2018 GDP growth came slightly lower than expected, the French economic recovery is expected to maintain its above-trend growth momentum. Strong employment growth and rising nominal wages on the back of reduced social contribution and housing taxes introduced by Emmanuel Macron's government should support household income, in spite of higher inflation. Business investment should continue rising at a sustained pace, supported by lower corporate taxes (planned to fall gradually from 22% in 2017 to 25% in 2022) and the elimination of the wealth tax for productive investments. With trade war, euro area politics and Brexit presenting the main threats to France's growth outlook, the government expects real GDP to grow by 1.7% this year and next, from 2.2% in 2017

Main structural reforms underway to improve medium-term growth prospects

Despite unions reluctance and numerous strikes, President Emmanuel Macron has initiated an impressive number of reforms in his first year in office including, the labor market reform, reforms to the unemployment insurance scheme, the revamping of professional training programmes and the changes to the governance of the railway sector. Although the French President's popularity has been on a declining path since his election last year, the 2019 Budget Law suggests that his economic reform agenda remains on track, relying on his large absolute majority in parliament. The budget deficit-to-GDP ratio was revised up for both 2018 and 2019 to 2.6% and 2.8%, respectively, vs. 2.3% and 2.4% projected earlier this year after printing 2.7% in 2017.

Italy: Weaker confidence signals downside risks to the growth outlook

Widespread weakness in confidence among households and firms



Policy uncertainty and slower job creation weighs on household spending

Source: Bloomberg, Eurostat, Eurobank Research

Latest Economic Developments

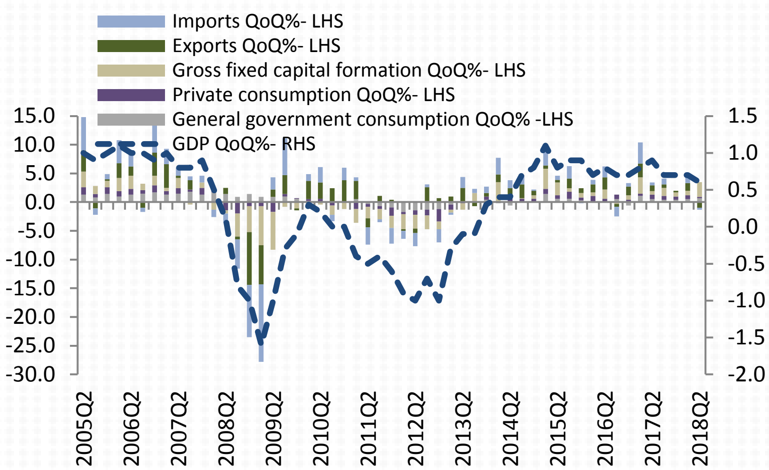
Real GDP growth decelerated to 0.2%QoQ in Q2 2018 from 0.3%QoQ in Q1. While business investment rebounded to 2.9%QoQ after a 1.1%QoQ decline in the prior quarter amid widespread strength across sectors (machinery, transportation and construction), final consumption expenditure slowed to zero growth from 0.4%QoQ in Q1 on the back of weaker household consumption. Uncertainty about future policies, higher interest rates and slower employment growth seem to be holding back household spending. The decline in exports slowed down to -0.2%QoQ from -2.5%QoQ in Q1, but the increase in imports by 1.8%QoQ inflated the negative drag from external demand. High frequency indicators point to downside risks to the growth outlook, with industrial production contracting in July by 1.8%MoM after two consecutive months of positive growth mainly due to the decrease in manufacturing output. Meanwhile, the weakness in the manufacturing sector was evident in the PMI indices, with the Composite Index falling at its lowest level (51.7 points) since October 2016. Overall, we maintain our real GDP growth forecasts for both 2018 and 2019 at 1.2% and 1.1%, respectively, from 1.6% in 2017, with downside risks stemming from weaker confidence as political worries prevail.

Italian politics update

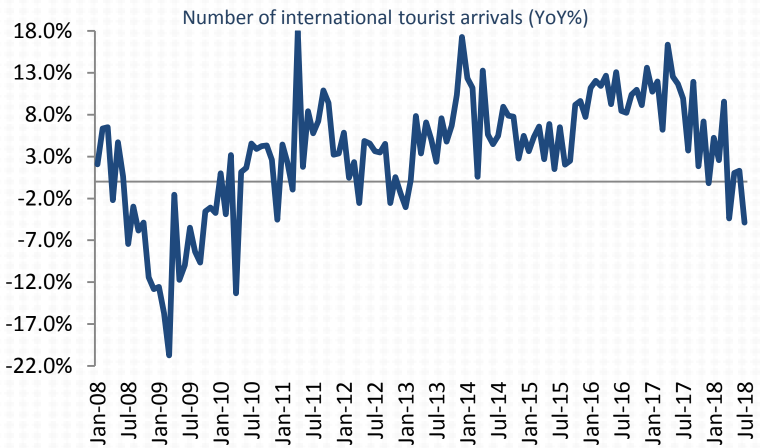
Italy's government approved the updated Stability Programme on 27 Sept., with the budget deficit-to-GDP ratio set at 2.4% from 2019 to 2021, the upper bound of the markets expectation range. Although Finance Minister Giovanni Tria insisted on keeping the 2019 budget target below 2.0% of GDP, there was intense pressure from the M5S and the League to raise it to 2.4%, entailing a fiscal expansion above 0.5pp of GDP that puts at risk the sustainable trajectory of the public debt level. The budget deficit target of 2.4% could lead to difficult negotiations with the EC, as it constitutes a considerable increase with respect to projections agreed with the EC in the context of the Stability and Growth Pact in May (0.8% deficit in 2019). Meanwhile, the said deficit target, much higher than the rating agencies' projections, could trigger a downgrade of Italian sovereign securities, putting further pressure on Italian assets.

Spain: Moderating economic momentum; approving 2019 budget the next political hurdle for the minority government

Spain's economic momentum is moderating



Number of tourists marks the first annual July drop in nine years



Source: Eurostat, INE, Eurobank Economic Research

Latest Economic Developments

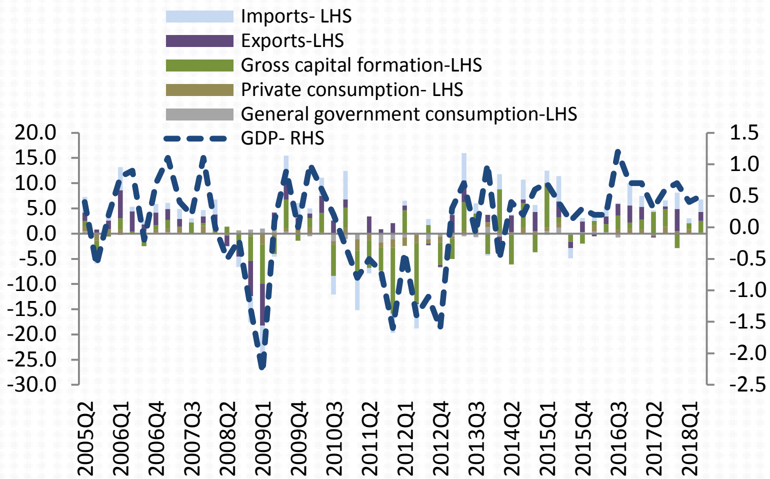
Spain's GDP slowed to a four year low of 0.6%QoQ in Q2 2018 compared to a growth rate of 0.7%QoQ in the last three quarters. The annual rate dropped to 2.7% from 3.0% in Q1 2018 and a 3.1% annual quarterly growth rate average in 2017. The slowdown was mainly driven by a 1.0%QoQ fall in exports growth, the first in nearly two years, as well as disappointing household consumption which grew by 0.2%QoQ, the lowest pace since Q4 2014, mainly pressured by higher inflation. Hard data and sentiment surveys pertaining to Q3 2018 confirm the shift of the economic activity into a slightly lower pace. Among others, industrial production grew by 0.1%YoY in July from 0.4%YoY in June, with annual average output growth rate declining from 2.9%YoY in June to 2.2%YoY. Similarly, the Markit Composite PMI Index edged up to 53.0 in August from July's 2½ year low of 52.8, albeit remaining well below levels around 56.0 - 57.0 marked in early 2018. Adding to the above, the tourism sector, which presents a key source for employment growth, is cooling presumably hit by the renewed attractiveness of non-EU Mediterranean destinations (Turkey, Tunisia, Egypt). The number of foreign visitors fell by 4.9%YoY in July, the first drop of that key summer month since 2009 while, for the 7-month period January-July 2018 it rose 0.3%YoY, the lowest pace in eight years. For the whole year 2018, Spain's GDP growth is expected to slow to 2.8% from 3.1% in 2017.

Politics update

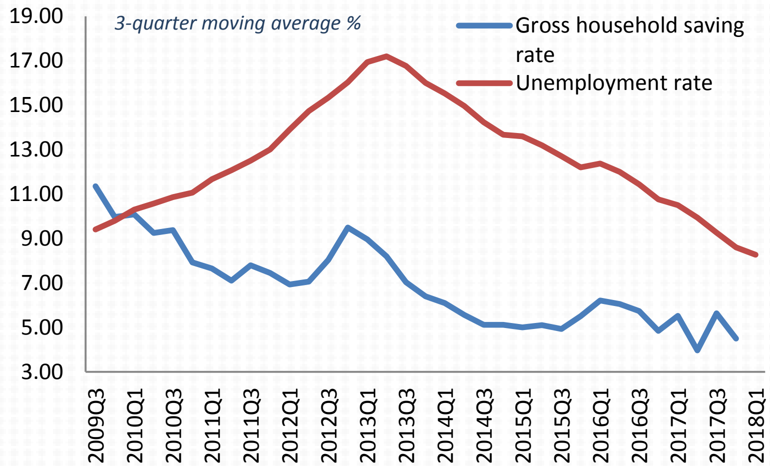
The ability of the minority government of the Socialist party to put forward a 2019 budget proposal by November 2018, with the hope to have it approved by early 2019, looks challenging. The party is negotiating the support of the budget with the left-wing party Podemos, but also needs the support of the two Catalan parties, the Basque Nationalist Party and the Catalan Nationalist Party, since the People's Party and the liberal Ciudadanos will probably cast a negative vote. But the two Catalan parties are demanding government approval for a new independence referendum in return, which PM Petro Sanchez categorically rejects. Without their backing, the PM will probably not be able to pass the budget, a development that may trigger early elections.

Portugal: Economic growth ticked up slightly in Q2; pace of expansion to remain solid in the remainder of the year

Real GDP growth gains some pace in Q2



No much slack left in the labor market and no much room for further reduction in savings



Source: Eurostat, Eurobank Economic Research

Latest Economic Developments

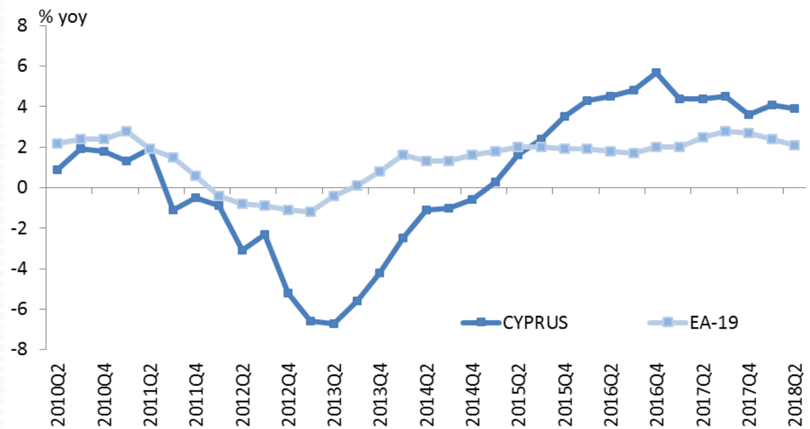
Portugal's GDP growth gained some pace in Q2 2018 growing 0.5%QoQ, slightly higher than 0.4%QoQ in the previous quarter. This modest growth improvement was mainly driven by higher total investment that contributed 0.6ppts to growth on the back of higher inventories, after having subtracted 0.2ppts in the previous quarter. Private consumption came flat, following a 0.8%QoQ rise in the prior quarter, while the external sector continued to be a drag on growth. Imports rose 2.5%QoQ, outpacing a 1.8%QoQ growth rate of exports with net trade subtracting 0.4ppts from Q2 GDP growth. In annual terms, Q2 GDP also ticked up to 2.3% from 2.1% in Q1. For the whole year 2018, Portugal's GDP growth is expected to be moderate compared to a 20-year high of 2.7% in 2017, mainly due to an anticipated slowdown in domestic demand as the slack in the labor market is being eroded while —without much room left to reduce savings further— higher oil prices are expected to weigh on households' real wages. An expected slowdown in the euro area's growth, especially in Spain where around of 25% of Portugal's goods exports go, is also anticipated to negatively affect Portugal's economic activity. However, the pace of expansion is likely to remain solid at 2.2%, above the projected 2018 average of 2.0% for the euro area, supported by a booming tourist sector and flourishing housing activity.

Politics update

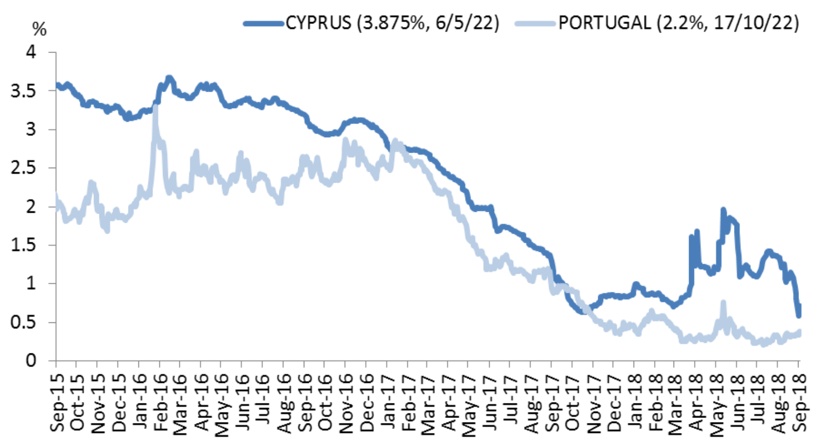
The approval of the 2019 budget is the next hurdle for Portugal's socialist Prime Minister Antonia Costa. Minor coalition partners, the Left Block (BE) and especially the Communist Party (PCP) and the Ecologist Party (The Greens), have toughened their rhetoric against their main coalition partner, the Socialist Party (PS), hinting that they might not support the budget when it will be tabled this fall. Should this be the case, the Prime Minister will have to ask for the support of center-right opposition, the Social Democratic Party (PSD) and the People's Party (CDS-PP). If there is no agreement between the PS and its minor coalition partners or the main opposition parties, the government could collapse, potentially triggering early elections.

Cyprus: Investment grade status regained

Cyprus turn-around growth story has been impressive so far



Cypriot medium term bond yields have improved in recent months driven by domestic banking system improvement



Source: Eurobank Research, National Authorities, Bloomberg

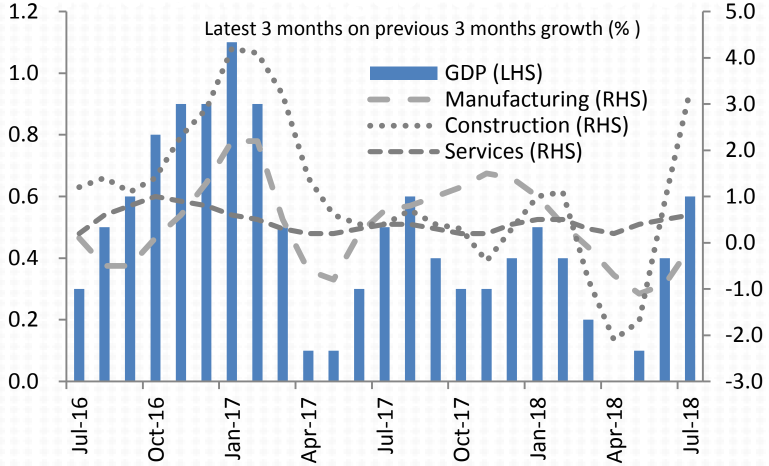
Latest Political & Economic Developments

On September 14th, S&P was the first rating agency to upgrade the long-term sovereign rating of Cyprus by one notch from BB+ to BBB- with a stable outlook. According to S&P, the decision has three main drivers. Firstly, it is based on the assumption that the Cypriot economy will continue to grow at a solid pace- on average by 3.25% -throughout the forecast horizon until 2021 supporting a reduction in the debt burden. S&P praised the recent government measures for financial support and legislative changes in order to reduce the volume of NPEs which have improved the banking system's health and are likely to facilitate further recovery efforts. Finally, S&P assessed that any additional financial state support to the banking sector will only moderately affect the sovereign balance sheet.

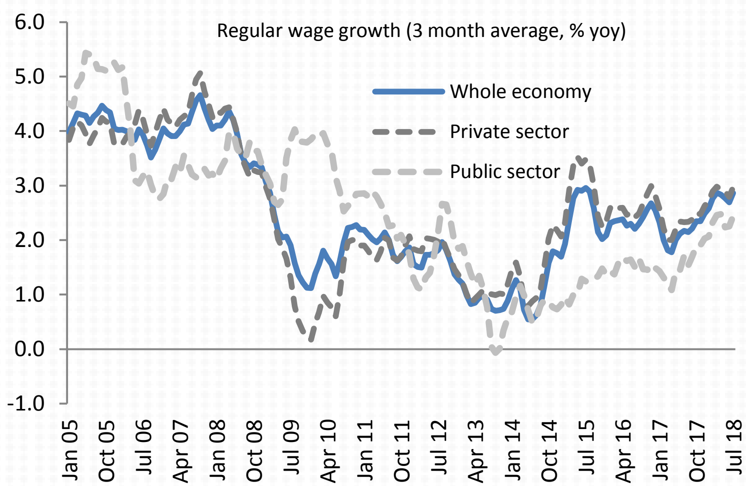
S&P is the first agency to award investment grade status in the post-MoU era. This is so because S&P was also first one to downgrade Cyprus in early 2012 to junk status. Cyprus regained its investment grade status 2.5 years after the exit from the economic adjustment program in late March 2016. So far this year, FITCH, DBRS, Moody's and now S&P awarded a one notch upgrade in their respective rankings as well. The distance from government bond investment grade status for the rest of the main rating agencies is: one for Fitch (currently at BB+, last upgrade in late April), two notches for DBRS (currently at BB, last upgrade in late May) and for Moody's (currently at Ba2, last upgrade in July). Capitalizing on the event, Cyprus tapped international markets with a new 10Y-Eurobond for the third time after exiting from the Economic Adjustment Program in March 2016. In the latest tender, the Public Debt Management Office (PDMO) sold an offered amount of €1.5bn instead of €1bn initially planned of 10-year government bonds. The issue was heavily over-subscribed with total bids amounting to €5.5bn. Following the competitive bids, the average accepted price was at 99.686 and the corresponding yield at 2.40% compared to an initial guidance of 2.6%. The issue matures on June 27, 2028 and bears a 2.375% fixed annual coupon.

UK: Economic growth picked up in the three months to July driven by services and, to a lesser extent, construction

Economic activity gathered pace in July



Wage growth rose in July for the first time in four months



Source: ONS, Bloomberg, Eurobank Economic Research

Latest Economic Developments

According to monthly GDP data released by the Office for National Statistics (ONS), the UK economy expanded by 0.3%MoM in July, up from 0.1%MoM in June. Rolling three-month data, in the three months to July —calculated by comparing growth in a three-month period with growth in the previous three-month period based on output gross value added— the economy expanded by 0.6%, the highest since June to August 2017, compared to 0.4% in February to April. The dominant services sector was the larger contributor driven by growth in retail and wholesale trade. In more detail, rolling three-month data, the services sector grew by 0.6%, presumably supported by one-off factors like warm weather and World Cup celebrations. Construction grew 3.3%, the highest pace since early 2017, adding 0.2pps to GDP growth. Largely supported by repair and maintenance work, the sector continued to recover from a period of negative growth in the start of 2018 due to winter disruptions. In contrast, manufacturing growth was negative for the fifth consecutive rolling period at -0.1despite a large contribution from mining and quarrying, dragging on GDP growth. Looking ahead, UK growth is expected to be anemic, with Brexit uncertainty exerting a negative impact on consumer and business sentiment. Meanwhile, Brexit-related developments have turned more negative over the last few weeks. President of the European Council, Donald Tusk, has set a deadline of 18 October for progress on the contentious issue of the Northern Ireland border that undoubtedly requires more compromise from the UK.

BoE Watch

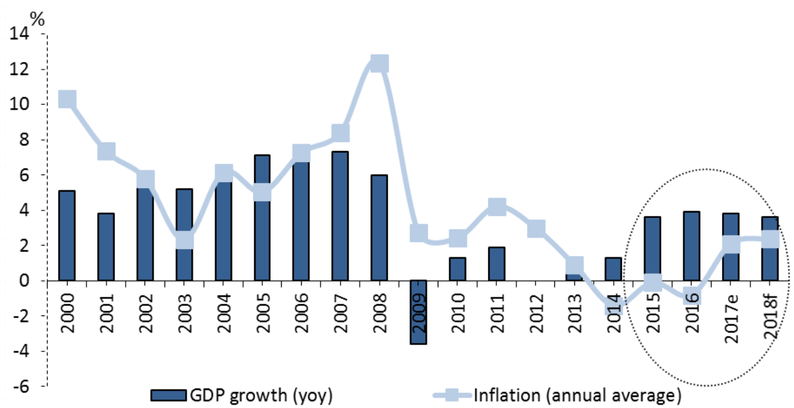
In its last monetary policy meeting on 12 September, the BoE's MPC stayed put on its monetary policy. The Committee acknowledged the July improvement in economic activity and revised upwards its Q3 GDP growth estimate to 0.5%QoQ from 0.4%QoQ penciled in the August Inflation Report amid expectations for an improvement in household spending and a Q3 rebound in manufacturing after "erratic weakness in Q2". The MPC took stock of increased external risks and Brexit-related uncertainty, hinting that the course of Brexit negotiations will be critical to future policy changes.

III. Selected CESEE economies

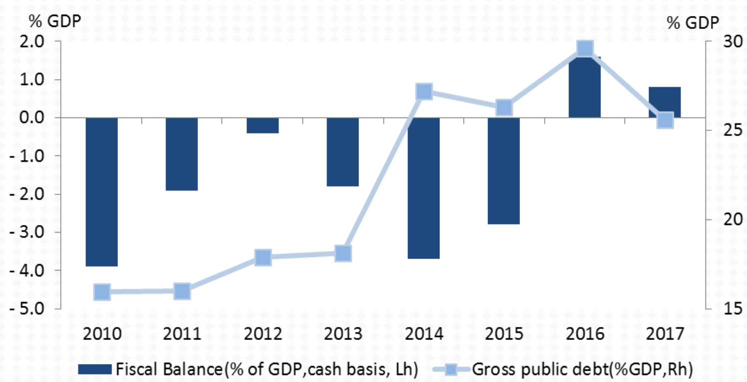
- Bulgaria
- Serbia
- Turkey

Bulgaria: Domestic demand drives GDP growth

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

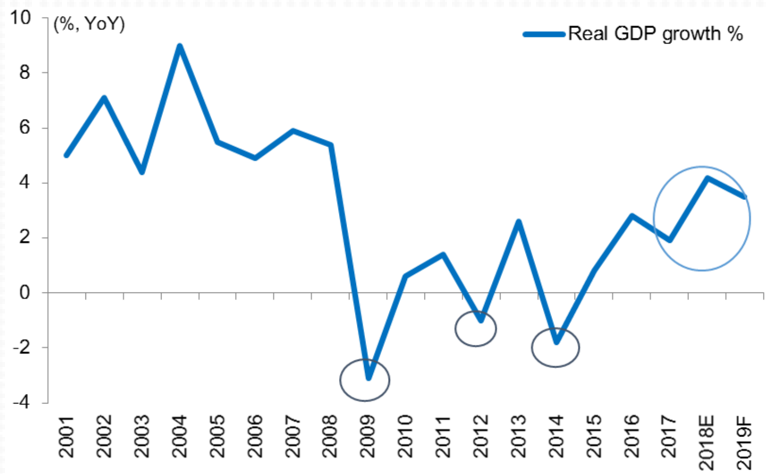
Latest Political & Economic Developments

Real GDP expanded by +0.8% QoQ/+3.4% YoY in Q2-2018 vs. +0.9% QoQ/+3.6% YoY in Q1-2018, confounding expectations for a growth acceleration, compared to +0.7% QoQ/+3.5% YoY in Q4-2017. Final consumption came exceptionally strong at +2.0% QoQ/+4.8% YoY in Q2 vs. +0.5% QoQ/+3.3% YoY in Q1-2018 vs.+1.3% QoQ/+3.8% YoY in Q4-2017 driven by further labor market and sentiment improvement, accelerating credit activity dynamics, a more expansionary fiscal policy stance. Unemployment declined further to 4.9% in Q2-the lowest reading ever recorded in the Eurostat database since 2000-compared to 5.4% in Q1, 6.2% in Q2-2017. Driven by the consumer segment, credit to the private sector accelerated to 7.6% YoY in August up from 7.1% YoY in 4.8% YoY in 2017 vs. only 1.5% YoY in 2016. Having expanded briskly in Q1, investments slowed down to 0.3% QoQ/+4.6% YoY in Q2, an illustration that EU funds related projects implementation remains behind the curve. Net exports had a more negative contribution as imports (+0.9% QoQ/+4.3% YoY) outpaced exports (-1.3% QoQ/+1.7% YoY), the lowest reading since Q4-2015) for a fifth consecutive quarter.

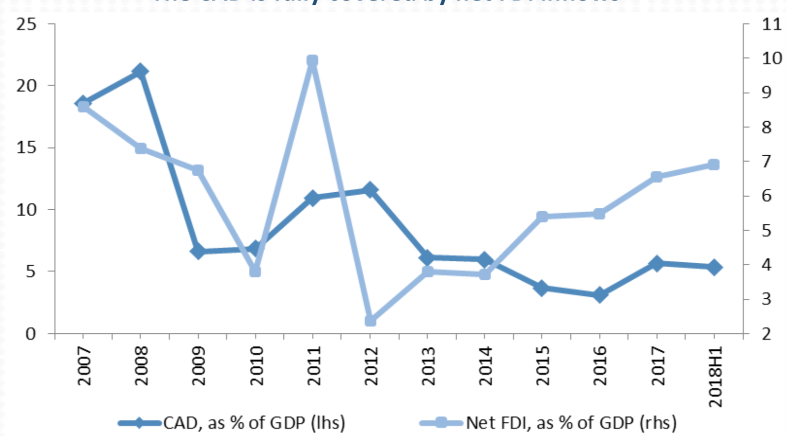
Inflation remained flat on an annual basis at 3.5% YoY in August vs. July- the highest rate since February 2013 vs. only 1.8% YoY in January. The spike can mainly be attributed to the rise of non-food inflation (3.8% YoY in August compared to 4.2% YoY in July vs. 1.2% YoY in January) which itself is driven primarily by higher transportation prices (9.0% YoY in August compared to 9.5% YoY in July vs. 2.1% YoY in January). Food prices were the second largest contributor to inflation in the same period (2.8% YoY in August compared to 2.7% YoY in July vs. 0.9% YoY in January). Looking ahead, the sharp adjustment in regulated energy prices (gas prices up by 10.8%, electricity up by 2.0%) as of July, the volatility of food prices and the rising trend of oil prices in world energy markets are expected to maintain inflationary pressures intact in the coming months.

Serbia: Q2 GDP growth at the highest pace in a decade

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



The CAD is fully covered by net FDI inflows



Source: Eurobank Research, National Authorities, Bloomberg

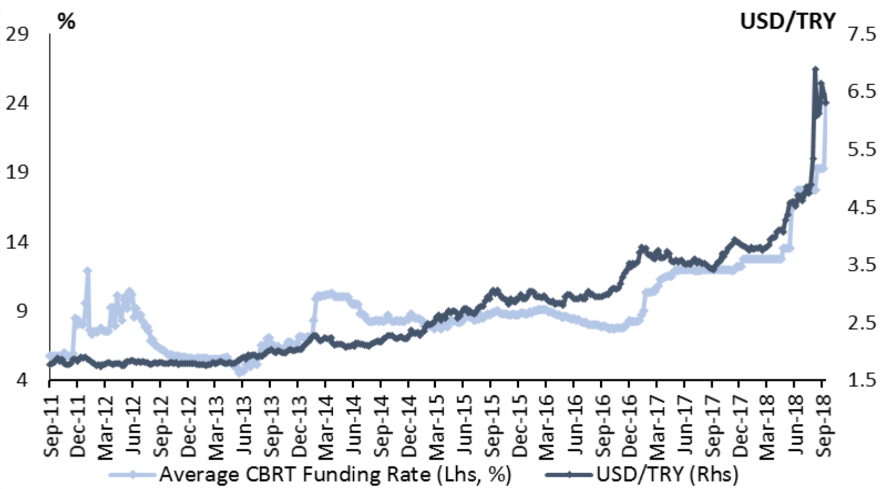
Latest Political & Economic Developments

According to the revised estimate GDP expanded by 0.8% QoQ/+4.8% YoY in Q2-2018, above the initial flash estimate of 4.4% YoY, bringing the H1 performance close to +4.9% YoY. The stronger than expected growth reading compares to +4.9% YoY in Q1-2018 (revised from 4.6%), which is the fastest pace in a decade and +2.4% YoY in Q4-2017. After bottoming out in Q3-2014, economic activity gradually started to accelerate, with domestic GDP exhibiting 13 consecutive quarters of positive growth between Q2-2015 and Q2-2018. Private consumption (+3.1% YoY in Q2 unchanged compared to Q1) and investments (+12.1% YoY in Q2 vs. 15.1% YoY in Q1) have been the main drivers in Q2. Strong imports growth (+9.2% YoY) - mirroring strengthening domestic demand and the increased import content of exports - outweighed exports (+7.1% YoY) turning net exports' contribution to the expansion of the economic activity negative.

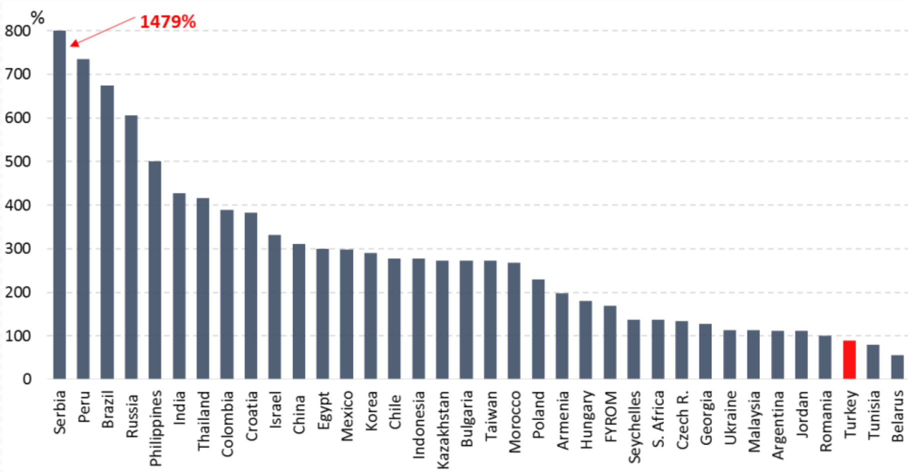
Meanwhile, NBS left interest rates at 3% for a sixth consecutive month in September. NBS grounded its decision on the expected inflation movements and the underlying factors behind it as well as the impact of previous monetary easing. Having reached a multi month low in last April at 1.1% YoY, headline inflation has been climbing up throughout Q2-Q3 on the back of higher energy and food prices. As of August, headline inflation reached 2.6% YoY within the target band (3% +/-1.5%) and is expected to remain within in the next two years. Inflation should stay below 3.0%-mid point by the end of 2018 while gradually approaching the midpoint in the first months of 2019 as a result of the low-base effect early this year. Short-term and mid-term inflation expectations of the financial and corporate sectors are well-contained around the 3.0% mid-point target. Given the uncertainties in the world environment, stemming from trade and geopolitical tensions, the commodities and financial markets volatility and major Central Banks policy normalization negative impact on EMs, NBS is very likely to remain put on rates until the end of the year.

Turkey: CBRT aggressive hike fails to stabilize the Lira

Turkish Lira has come under severe pressure so far in 2018



FX Reserves (%) of External Debt Repayments in 2018



Source: Eurobank Research, National Authorities, Bloomberg

Latest Political & Economic Developments

In an unprecedented move, the CBRT decided to hike the key policy rate (KPR) -the 1-week repo as of late May-by 625bps from 17.75% to 24.00% in mid-September. The Overnight and Late liquidity window lending rates were equally hiked by 625bps to reach 25.5% and 27% respectively. The CBRT acknowledged the deceleration in domestic demand, emphasizing that recent inflation outlook developments point to significant risks to price stability. The announcement confounded market expectations. In the Reuters survey of economists, the median expectation was for a 425bps rate rise, but predictions ranged from 225 bps to a much larger 725bps hike. Headline inflation accelerated to 17.9% in August-at the highest level seen since 2003-up from 15.9% in July and 15.4% YoY in May, coming in significantly above market expectations. Inflation is not only running within double digit territory but is also expected to remain in elevated levels-the year-end and the 12-month forward market CPI expectation stands at 19.6% YoY and 14.5% YoY versus the 5% medium-term CBRT target. To make things worse, real GDP growth landed to 0.9% QoQ/5.2% YoY in Q2-2018 down from 1.5%/7.3% YoY in Q1-2018 driven by rapidly decelerating domestic demand dynamics, adding to concerns for a hard landing in the economy.

In our view, the CBRT aggressive move was more than necessary for the Central Bank to regain some of its lost credibility in an already very challenging economic environment. Markets attention will now turn to fiscal policy to see whether there will be a coordinated adjustment to support the shift in policy mix. The market response in the aftermath of the CBRT decision has been quite impressive. The next day, the Turkish lira strengthened to 6.0240/USD compared to 6.3748/USD ahead of the decision announcement, recouping some of its heavy losses in 2018. However, immediately thereafter it started depreciating again, trading currently around 6.18/USD.

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	3.6	3.7	3.7	3.0	3.3	3.2									
Advanced Economies															
USA	2.2	2.9	2.6	2.1	2.5	2.3	4.4	3.9	3.6	-2.3	-2.5	-2.5	-4.9	-5.3	-5.9
Eurozone	2.5	2.0	1.9	1.5	1.6	1.6	9.1	8.4	7.9	3.5	3.4	3.4	-0.9	-0.7	-0.6
Germany	2.5	1.9	1.8	1.7	1.7	1.8	3.8	3.6	3.5	8.0	7.9	7.6	1.3	1.2	1.4
France	2.2	1.7	1.7	1.2	1.9	1.5	9.4	8.7	8.3	-0.6	-0.5	-0.4	-2.7	-2.6	-2.8
Periphery															
Cyprus	4.2	3.9	3.6	0.7	0.8	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	1.9	1.1	0.7	1.0	21.5	20.0	18.5	-0.8	-0.7	-0.6	0.8	0.4	0.2
Italy	1.5	1.2	1.1	1.3	1.3	1.3	11.2	10.8	10.5	2.8	2.6	2.5	-2.3	-1.8	-1.7
Portugal	2.7	2.2	2.0	1.6	1.4	1.6	9.0	7.5	6.6	0.5	0.3	0.4	-3.0	-1.0	-0.9
Spain	3.1	2.8	2.4	2.0	1.8	1.6	17.2	15.5	14.8	1.9	1.7	1.7	-3.1	-2.7	-2.2
UK	1.7	1.3	1.2	2.7	2.6	2.0	4.4	4.5	4.6	-4.1	-3.6	-3.3	-1.8	-1.9	-1.7
Japan	1.7	1.2	1.2	0.5	1.0	1.0	2.8	2.6	2.6	4.0	3.8	3.7	-3.5	-3.3	-2.8
Emerging Economies															
BRICs															
Brazil	1.0	1.2	2.5	3.5	4.0	4.2	12.9	11.8	11.0	-0.5	-1.5	-1.8	-8.9	-7.5	-6.8
China	6.9	6.7	6.4	1.6	2.5	2.6	3.9	4.0	4.0	1.4	1.2	1.2	-3.7	-2.6	-2.5
India	6.7	7.6	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	1.5	3.7	3.0	4.5	5.2	5.0	4.9	2.2	4.2	3.0	-1.5	1.5	1.7
CESEE															
Bulgaria	3.6	3.7	3.5	2.1	2.6	2.8	6.2	5.5	5.3	4.5	1.4	1.0	0.8	-1.0	-0.5
Romania	7.0	4.0	3.6	1.3	4.7	3.3	4.9	4.5	4.4	-3.5	-4.0	-4.0	-3.0	-3.5	-3.8
Serbia	1.9	4.0	3.5	3.3	2.2	3.0	13.5	12.0	11.0	-5.7	-6.3	-6.9	1.2	0.6	-0.5
Turkey	7.4	3.0	0.0	11.1	15.0	16.0	10.9	11.5	12.0	-5.5	-4.0	-2.5	-2.0	-2.5	-3.5

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

Eurobank Fixed Income Forecasts

	2018		2019		
	Current (as of September 27, 2018)	December	March	June	September
USA					
Fed Funds Rate	2.00-2.25%	2.25-2.50%	2.25-2.50%	2.50-2.75%	2.75-3.00%
1 m Libor	2.24%	2.23%	2.51%	2.54%	2.68%
3m Libor	2.39%	2.48%	2.68%	2.81%	2.90%
2yr Notes	2.81%	2.90%	2.97%	3.00%	3.05%
10 yr Bonds	3.04%	3.10%	3.15%	3.15%	3.20%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.32%	-0.31%	-0.30%	-0.29%	-0.26%
2yr Bunds	-0.51%	-0.46%	-0.40%	-0.35%	-0.30%
10yr Bunds	0.51%	0.54%	0.60%	0.65%	0.70%
UK					
Repo Rate	0.75%	0.75%	0.75%	1.00%	1.00%
3m	0.80%	0.83%	0.90%	0.95%	0.98%
10-yr Gilt	1.57%	1.60%	1.63%	1.65%	1.70%
Switzerland					
3m Libor Target	-0.75%	-0.75%	-0.75%	-0.70%	-0.70%
10-yr Bond	0.03%	0.12%	0.15%	0.20%	0.23%

Source: Bloomberg (market implied forecasts)

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