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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:** Economic expansion on track, with an expected bounce back in Q2 GDP as earlier distortions gradually fade
- **EA:** Signs of stabilization raise expectations for a modest recovery in the coming quarters
- **UK:** Activity likely to slow near term as businesses are expected to run down inventories following a six-month extension to Brexit
- **EM:** China's GDP growth upbeat Q1-2019 reading spurs more optimism over EM's growth prospects
- **CESEE:** Leading indicators signal that the economic slowdown is underway

Policy Outlook

- **USA:** Fed shifts bias from tightening to neutral; No anticipated rate changes in 2019
- **EA:** TLTRO III details likely to be unveiled in June; ECB ready to adjust all of its instruments; No policy rate hike until end 2020
- **UK:** The BoE is expected to remain in a "wait-and-see" stance given continued Brexit uncertainty, sluggish growth and contained inflation pressures
- **CESEE:** Regional Central Banks appear reluctant to initiate the tightening cycle

Summary

Global growth is still decelerating, although markets and economic data have rebounded over the last few weeks. The IMF revised downwards its real GDP growth projection to 3.3% in 2019 from 3.6% in 2018, with the projected slowdown in advanced economies accounting for over two-thirds of the expected deceleration in global growth

Markets

- **FX:** USD rallied strongly on superior US data and increased optimism on the potential of US-China trade agreement. EZ growth worries, continued Brexit uncertainty and suppressed inflation will keep EUR at bay
- **Government bonds:** Chinese policies have proved successful with data pointing to a recovering economy. Positive sentiment and a rally that had gone too far pushed yields higher bringing them back to pre-March FOMC levels
- **EM:** Decent volumes were enough to keep markets unchanged to slightly tighter levels towards month end despite the high volatility levels. FED's rhetoric will be crucial for markets to consolidate at current levels
- **Credit:** ECB's rhetoric along with the hopes of a deal between US and China kept the market tight. We remain cautiously supportive over the next 1-2 months on CB dovishness and additional talks on rate cuts etc.

Key Downside Risks

- **Renewed trade jitters:** US & China fail to reach a final trade agreement or/and the US imposes tariffs on European car imports
- **No-deal Brexit:** The UK could be forced to exit the EU on 1 June 2019, in case the UK Parliament fails to ratify the Withdrawal agreement by 22 May and the UK does not participate in the European election scheduled for 23-26 May
- **EM sensitivity:** The increased volatility of oil prices is a double-edged sword for producers and consumers
- **(Geo) political risks:** A new round of US sanctions against Russia and Iran may be a catalyst for higher oil prices

Latest Macroeconomic Developments & Outlook

World Economic Outlook		Although global growth is still decelerating, financial markets and economic data in major economies have rebounded over the last few weeks. Expectations for a trade deal in the coming weeks between US and China, a more dovish monetary policy stance by central banks globally, led by the US Federal Reserve, stronger macroeconomic data both in the US and China, as well as some tentative signs of domestic resilience in the euro area have been sufficient to revive investors' risk appetite and alleviate concerns regarding the global economic outlook. Nevertheless, mirroring the economic slowdown in H2 2018 and Q1 2019, the IMF revised downwards its real GDP global growth projection to 3.3% in 2019 from 3.6% in 2018, with the projected slowdown in advanced economies accounting for over two-thirds of the expected deceleration in global growth relative to 2018. Main downside risks focus on a trade conflict escalation, a no-deal Brexit, European political risks and protracted slowdown in China and Europe.
Developed Economies	**US**	The current economic expansion is still on track, with a strong labor market and a healthy household sector. Although the industrial sector has faded from 2017 & 2018 strong levels, manufacturing PMIs and capital goods shipments have risen since the start of the year, boding well for the industrial activity and the investment outlook in the months ahead. Elsewhere, the housing market seems to have stabilized somewhat due to lower rates after five quarters of a negative contribution to growth. We maintain our real GDP growth projection at 2.4% in 2019 from 2.9% in 2018, with an expected bounce back in Q2 as earlier distortions gradually fade.
	Euro Area	Latest economic data provide some evidence of domestic resilience, suggesting that Q1 IP growth should contribute positively to overall growth. The improvement in the Chinese data and the ongoing encouraging signs in the US bode well for EA external demand. That said, as the negative effect from temporary factors that held EA growth back gradually fades away, we expect real economic activity to recover somewhat in the following quarters, with 2019 real GDP growth coming in at 1.2% from 1.8% in 2018.
	Periphery	Spain continues to outperform other major EU economies with the latest available data suggesting that the economic expansion continues, but at a more moderate pace. With respect to Italy, the latest data provide some hopes that the Eurozone's third largest economy is on its way out of recession. The risks surrounding the growth outlook of all periphery economies are titled to the downside stemming from fears of a no-deal Brexit, higher US tariffs on EU auto imports, a return to a tit-for-tat tariff war and renewed worries over Italy's fiscal sustainability.
Emerging Economies	**BRICS**	A series of meagre economic data have let down expectations over Brazil's economic recovery, following the election of Jair Bolsonaro in past October, while, currently, the country's pension reform is on the spotlight due to its vitality to the economy. In Russia, decelerating industrial production and subdued private consumption point to slower growth momentum, compared to 2018 GDP growth of 2.3%. From April 11th to May 19th, India is in election mode with polls suggesting that the National Democratic Alliance will win a second term. Finally, the latest economic data from China surprised positively. Q1's GDP growth came in stronger-than-expected at 6.4%YoY, surrounded by favorable soft and hard data both on demand and supply side.
	CESEE	The latest releases of leading indicators including PMI and Economic Sentiment Indicators (ESI) predispose for softer GDP readings ahead across the region. Nevertheless, those releases could be overstating the magnitude of the slowdown. Driven by higher food and energy prices, headline inflation accelerated in the vast majority of the region's economies in Q1 2019. Although some of the regional Central Banks are increasingly confronted with the dilemma of tightening, the worsening of the international growth outlook makes them reluctant to initiate the tightening cycle.

Global Macro Themes & Implications

Theme	Implications
China's Q1 GDP growth surprising positively	The latest economic data from China surprised positively and eased fears over a sharper slowdown. Q1's GDP growth came in at 6.4% YoY, beating by 0.1pp the market consensus of 6.3%YoY and boding well for the Chinese 2019 GDP growth official target, set between 6.0% and 6.5%. The growth print was surrounded by favorable soft and hard data both on the demand and the supply side, supporting the prevailing market view that the global economic slowdown may have bottomed out. In detail, referring to March data, industrial production was up by 8.5%YoY from 5.9%YoY in February, retail sales kept increasing in the same pace by 8.3% YoY, fixed asset investment growth picked up by 0.2pp to 6.3%YoY and house prices firmed by 0.6%MoM compared to 0.5% in the previous month. Moreover, all PMIs surprised positively, chiefly the manufacturing sub-index which came in above the 50-benchmark that segregates expansion from contraction. That said, the monetary and fiscal measures -among which we highlight the RRR cuts and the corporate, individual and value added tax cuts -adopted gradually since mid-2018 in order to prevent China's economy from a hard landing seem to have been diffusing in the economy. The apparent stabilisation in the economic growth currently suggests that the GDP growth target for 2019 appears achievable with the fiscal stimulus having yet to fully kick in (i.e. the reduction in social security contributions is scheduled to be effective in May). As such, any additional stimulus is considered unlikely, for the time being, with the adoption of further economic policy measures, going forward, being broadly data driven.
Optimism for a US/China comprehensive trade deal in the weeks ahead	Following the conclusion of the latest round of high-level US/China trade negotiations in early April, both sides signaled that further progress was made. In a recent TV interview, US Treasury Secretary Steven Mnuchin said that the two countries have "pretty much agreed" on an enforcement mechanism for a potential trade deal which could consist of setting "enforcement offices" in their respective countries and expressed hopes that discussions are "close to the final round". According to comments by unnamed senior officials from both sides, face-to-face trade negotiations are scheduled to continue, aiming to reach a compromise deal by early May that the US President and his Chinese counterpart will sign later that month. A final trade deal should include, among others, gradual removal of tariff hikes implemented during the trade war, more purchases of US goods by China, a commitment for China to avoid devaluations of the yuan against the USD and a range of agreements for the protection of US companies against Chinese competition. Trade talks are scheduled to resume the week coming on 29 April. A final US/China trade deal would likely ease business uncertainty and would improve market expectations for the global growth outlook. However, the expected improvement on market sentiment and the global economic outlook would depend on the terms of the agreement, including the timeline of the removal of the existing tariffs.

Global Macro Themes & Implications

Theme	Implications
Fed shifts bias from tightening to neutral	The March FOMC minutes reiterated all the information that was communicated at the March policy statement and press conference, with the majority of FOMC members expecting that the US economic outlook and the associated risks would warrant unchanged interest rates throughout 2019. Even in the case of stronger labor market conditions, the Committee would not proceed with additional rate hikes as long as inflation pressures remain subdued. Several participants pointed out that the appropriate target range for the fed funds rate could shift in either direction at the following FOMC meetings depending on the evolution of the economic outlook. Although the Committee did recognize slower private consumption growth, softer housing activity and less business investment and government spending, it expected a rebound in Q2 on the back of healthy labor market conditions and favorable lending conditions for households and firms. Following the release of the March FOMC meetings, Chicago Fed President Charles Evans, a voting member of the FOMC this year, noted that economic data releases are “quite good” and that he expects rates to stay “flat and unchanged into the fall of 2020”. Commenting on the inflation outlook, he added that “the Fed must be willing to embrace inflation modestly above 2 percent, 50 percent of the time”, likely pointing to a more dovish monetary policy in spite of higher inflation rates moving forward, while Boston Fed President Eric S. Rosengren (voting member as well) said that the Fed might be forced to accept below 2% inflation during recessions, but would commit to achieving above2% inflation during periods of expansion, “so as to provide more policy space to counteract the next recession”. We continue to expect no interest rate adjustments at least by the end of 2019, while the anticipated GDP growth deceleration raises the chances that the Fed’s next move could be an interest rate cut. The fed futures market is currently attaching a probability of ca. 40% for a 25bp cut in December 2019 vs. 50% one month earlier.
ECB: Ready to adjust all of its instruments, if needed	Staying put on interest rates and reiterating its forward guidance for unchanged rates at least through the end of the year, the ECB highlighted at its April 10 monetary policy meeting that it stands ready to use all its instruments, if required, in order to ensure its price mandate. The overall tone of the accompanying statement and President Mario Draghi’s comments at the post-meeting press conference were generally skewed on the dovish side of market expectations. Though the estimated probabilities of a recession remain low, the ECB reiterated that risks surrounding the Eurozone’s growth outlook remain skewed to the downside and the slower growth momentum is expected to be more prolonged than anticipated. In the post-meeting press conference, the ECB President hinted that alternative mitigating measures -without explicitly mentioning “tiering”- to offset adverse effects of negative interest rates are under formal consideration. Although he avoided to provide new details on the precise terms of the TLTRO III, he did reveal that the respective parameters, which will be presented at one of the forthcoming meetings, will depend on the evolution of the economic outlook and an assessment of the bank-based transmission channel of monetary policy. Regarding the timing of the next policy announcement, June looks as the most likely time for the TLTRO III details to be unveiled, when the ECB will publish its updated macroeconomic staff projections. Potential mitigation measures may not be announced at the same time, but wait until September together with the formulation of forward guidance. Future markets (3M Euribor) currently price in 10bps of rate tightening by end-2020 and an additional 20bps by end-2021, although the ECB might delay further the first rate hike –or even ease further its monetary policy stance- should the Euro area’s macroeconomic conditions deteriorate further.

Global Macro Themes & Implications

Theme	Implications
Business uncertainty continues as Brexit deadline is pushed back	At an extraordinary summit on 10 April, the EU Council decided to grant a six-month “flexible” extension to the UK’s exit until 31 October 2019. The extension is conditional on the following: (i) no reopening of the withdrawal agreement; (ii) UK participation in the European elections on 23-26 May (under the assumption that the UK Parliament does not ratify a Withdrawal Agreement by 22 May); and (iii) the UK respects the principle of “sincere cooperation” (i.e. to fulfil its treaty obligations and not exercise its veto in EU decision making). The extent is flexible in the sense that the UK could leave before 31 October 2019, if both sides ratify a withdrawal agreement before that day or, it could be forced to exit the EU on 1 June if it does not participate in European elections. As stressed by IMF Managing Director Christine Lagarde recently, the six-month extension on Brexit prevents the risk of a no-deal Brexit in the near term, gives time for continued discussions between the various parties involved and gives also time for businesses to get prepared for all options. On the other hand, the extension prolongs Brexit uncertainty as it does not help to provide any clarity about the final outcome. Cross-party talks continue between Prime Minister Theresa May and Labour Party leader Jeremy Corbyn aiming to find common ground on a plan for the political declaration on the future UK/EU relationship. However, the chances the two party leaders reaching a deal that could receive the support of the House of Commons look slim. Theresa May’s appeal for Corbyn’s help to break the Brexit impasse potentially paves the way for a softer Brexit. Hard Brexiteers are clearly discontented and the risk of the Conservative party splitting in two seems real. On his part, Jeremy Corbyn is under pressure not to reach a deal with the Conservative Party and push instead for snap elections or a second referendum. If the two leaders fail to reach a compromise, Theresa May has offered as an alternative the adoption of any alternative Brexit plan backed by MPs in a new round of indicative votes. However, the parliamentary arithmetic for passing a Brexit deal remains challenging. It is difficult to predict what is going to happen in the period ahead and the likelihood of a Conservative leadership contest, followed by a general election by summer, cannot be ruled out, especially in case the Conservative Party performs poorly in the upcoming European elections. However, the most likely scenario seems to be the EU leaders having to decide again in October for further extension of the Brexit deadline.

Macro Themes & Implications in CESEE

Theme	Implications
Inflation trends: Consumer prices on the rise in the broader region	The set of March CPI data readings confirmed the broader CESEE region's upbeat inflation dynamics in Q1 2019. Driven by higher food and energy prices, headline inflation accelerated in the vast majority of the region's economies. In some cases, the rise in recent months has been such that now inflation is obviously standing above target. In Bulgaria, inflation climbed to 3.6%YoY in March up from 2.7%YoY in December. In Romania, inflation has been running at 4.0%YoY in March-with core inflation at 2.7%- compared to 3.3%YoY in December, exceeding the NBR's target interval upper threshold (2.5%+/-1pp) for a second month in a row. In Serbia, where inflationary pressures appear more muted, headline CPI stood at 2.8%YoY-still within the NBS target band (3%+/-1.5%)- compared to 2.0%YoY in December. Poland and Turkey are both outliers. Poland is lagging behind CEESE peers, with inflation and core inflation growing modestly at 1.7%YoY and 1.3%YoY, respectively, yet still higher than 1.1%YoY and 0.8%YoY in December. In contrast, Turkey is a totally different case. Inflation has been rallying in double digits for months on deteriorating fundamentals and severe domestic currency depreciation pressures. Nevertheless, headline inflation has retreated from its historic highs in recent months, ending at 19.7%YoY in March, down from 20.3%YoY in December 2018 and 25.2%YoY in October.
Both supply & demand factors at play behind recent inflation spike in the region. Different inflation paths allow for divergent monetary policies by regional Central Banks	A large part of this inflation spike can be attributed to supply-side factors, namely rising food and energy prices. On the food prices, the main driver behind the food component acceleration is the volatile vegetables prices. Unfavorable weather conditions is not the only factor behind poor supply, as bottlenecks in the wholesale and retail chain value also pushed the prices of vegetables higher. For example, Russia, Turkey and Poland have been among those economies hit by double digit rise in potatoes prices in the last month. In addition, energy prices have been staging a rebound lately following multi-month lows recorded last December. In detail, oil prices have risen by ca. 33.7% year-to-date (Brent futures now trading at 72$ per barrel in mid to late April vs. only 53.8$ per barrel in January 2019) putting more strain on the household, corporate and sovereign budgets. On the demand side, inflationary pressures are building on rallying wages and labor market tightening, which feed into robust domestic demand dynamics. In addition, expansionary fiscal and monetary policies provide further ground for the rise of core metrics across the region. The rising trend of core and headline inflation metrics is uneven across the region, allowing for different degrees of freedom in the respective Central Banks' monetary policies. With a few notable exceptions, the majority of Central Banks in the region maintain their cautiously accommodative stance. Although some of them are increasingly confronted with the dilemma of tightening, as core inflation is trending higher towards or within respective inflation target bands, the deterioration of the international growth outlook makes them reluctant to initiate the tightening cycle.

CESEE Markets Developments & Outlook

Country	CESEE Markets Developments & Outlook
Bulgaria	Bulgarian Eurobond yields posted little to no change in April, keeping a tight range of 1-5 bps across the board. The Bulgarian Ministry of Finance continued the short to medium term strategy of decreasing the debt-to-GDP ratio levels and, as such, did not held any auctions in April. Local bond yields also remained subdued this month, staying within 5-8 bps across the board. Meanwhile, Fitch ratings reaffirmed the investment grade status of Bulgaria and revised its outlook to positive. The rating agency has identified several factors that may boost Bulgaria's sovereign credit rating, among which ongoing improvements in external and fiscal balances, the country's progress in joining the Eurozone and its promising prospects for economic growth that could lead to a faster economic convergence with countries of similar ratings.
Serbia	There were no major developments in Serbia's FX market in April, as the EUR/RSD has kept flirting with the 118.00 quote, heavily supported by interventions on the buy side by the National Bank of Serbia (NBS). Markets have been focused on compiling a draft law proposal, aiming to solve the issue of increasing debt in mortgages denominated in Swiss franc. Government will bear 15% of costs regarding the conversion of the principal amount of loans indexed in Swiss franc, banks will write off ca 22-23% of the loan outstanding, following the conversion, and the additional reduction of the burden through a tax benefit to banks will amount to 2-3%. What remains to be seen is whether the aforementioned treatment of the loan amounts outstanding in Swiss Franc will affect the EUR/RSD. In our view, the implementation of the bill will not have an impact on the rate most probably, as the NBS is expected to offer promptly all required Euros at official middle rate on the day that all mortgage loans will be converted into euro indexed loans. In case the NBS appears unable to cover the demand for Euros immediately -option still rendered highly unlikely- the conversion effect could generate an additional need for approximately EUR150mn to EUR200mn demand that could push the EUR/RSD a bit higher. Bottom line, the economic environment appears solid. State budget keeps recording surplus in the first two months of 2019, despite the projections over a deficit of ca 0.5% of 2019 GDP. Public debt keeps shrinking, standing currently at 50.4% of GDP, compared to 53.8% in December. The only drawback, although not yet officially released, is the forthcoming GDP growth reading that is expected to be around 2.5% for Q1. However, taking into account that such concerns over Q1 GDP's weakness are imminent almost across all EU, on the back of a global slowdown, this should not be sufficient to move substantially neither the FX market nor the sovereign domestic bond yields.

Markets View

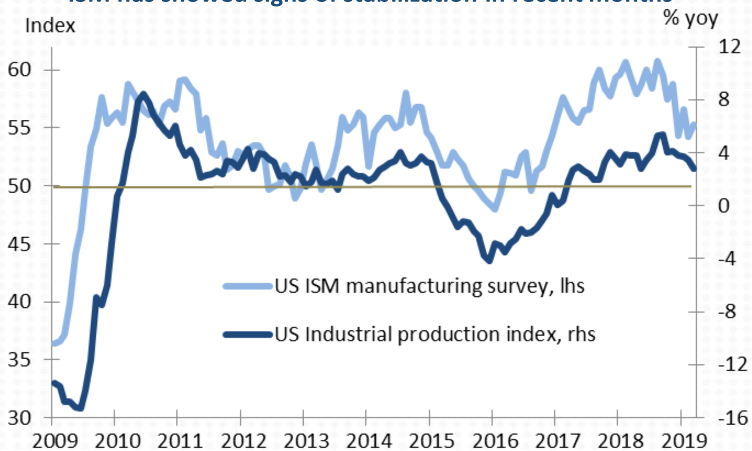
Asset Class	Outlook
Foreign Exchange	**EUR/USD:** Draghi's tone during the press conference was dovish, but there was nothing really new in terms of policies, suggesting no sustained market impact. Looking ahead, Eurozone data will be the main EUR driver-as well as what will determine the ECB policies. Recent improvements in China data and a US-China trade deal will improve the Eurozone outlook and strengthen the EUR in the months ahead but in the meantime USD remains king. **USD/JPY:** Trade negotiations between Japan and US kicked off in mid – April and the officials have promised a faster pace from here. Reports are now stating that FinMin Aso is due to travel to Washington next week for trade talks and may discuss a currency clause with US Treasury Secretary Mnuchin. The JPY still reacts as a safe haven currency finding a bid as sentiment drops moving in tandem with any slippage in Chinese stocks. **GBP/USD:** UK data seems to be ignoring the Brexit saga with strong retails sales and a tight job market prevailing. May's government has now negotiated an extension until 31st of October with the UK participating in the upcoming EU parliamentary election unless the existing withdrawal agreement passes by the House of Commons by the 22nd of May. The possibility of a Deal or a No Brexit outcome has now been assigned a higher probability by the market, providing some support for Sterling.
Government Bonds	**EU:** President Draghi explained that the main goal of the 10 April ECB meeting was to "*reassert the readiness to act if the contingencies would warrant so*". The ECB acknowledged the slowing economy but at the same remained confident in inflation converging on the target. Its assessment of the bank-based transmission channel of monetary policy as well as further developments in the economic outlook are two conditions that will determine the pricing of TLTRO III. Optimism on Chinese economy lifted the Bund yield above 0% to reach 8bps but a set of abysmal Manuf PMIs (especially for Germany) confirmed the EZ slowdown pushing rates lower. Headlines coming out from ECB officials have so far pushed back on tiering. Trading flows saw decent long end receiving going through the market, with the long end flattening a touch off the recent steeps of 10s/30s, which broke above 62 bps. **US:** Treasuries fully unwound the post-FOMC rally as earnings-driven equity strength, accommodative remarks from European officials and optimism on Chinese growth helped support risk assets. 3m10y has reverted to early March levels calming market nerves. The fact that the rally was also in part driven by technical flows – mortgage convexity receiving and dealer hedging of short gamma positions – has made it even more likely that the rally is short lived. UST 10y yields broke above their March 20th pre-meeting levels at 2.59%, approaching the 2.63% resistance. On the macro front, consumer sentiment rebounded, giving a boost to spending - as evidenced by the strong retail sales - as employment data continues to point to a tight labour market. With oil prices 50% higher from the Dec $42/bl trough, inflation breakevens should start picking up, pushing term premiums higher as the long end of the curve starts to steepen albeit in a still depressed volatility environment.
EM hard currency debt	EM spreads both in CDS and cash had a volatile month and ended the month slightly tighter on idiosyncratic stories. April started by digesting the news following Turkey and Ukraine elections, Moody's lack of South Africa review and Aramco's announcement of a multi-tranche roadshow. Turkey's 5 Year CDS closed marginally wider at 438bps after a volatile month as Erdogan lost both Ankara and Istanbul in local elections. South Africa started the month tighter in both cash and CDS after its credit rating was left unchanged. By month end 5 year CDS closed at 180bps from 193bps. Aramco's roadshow brought decent activity in MENA IG paper. The company managed to raise $12bn with bids topping $100bn. KSA had a volatile month merely due to the Aramco's new issues performance. By mid-month KSA saw better selling on the back of primary issuance particularly in the long end (+6bps w/w). Overall, KSA 5 year CDS traded at 75bps and then at 84bp before closing 10bps tighter at 76bps from 85bps at the beginning of the month. Despite the volatile market environment we still favour a constructive stance as FED's rhetoric has not changed and still leaves room for further consolidation.
Corporate credit	USD and EUR credit spreads continued trading tighter amid optimism about the US earning season and the bounce back in fundamentals, especially out of China and US. Both Itraxx Main and XO had a good month. Main started the month at 65bps and closed at 57bps on a roll adjusted basis. XO managed to close marginally tighter at 249bps despite some volatility (264-245bps range). The good market sentiment was also supported by the collapse in the inflation breakeven which heaped pressure on the ECB. The latter has again reasserted its readiness to act if the contingencies warrant so. The deposit tiering rhetoric was recently being played down by ECB officials, while exact TLTRO terms are expected to be announced by June meeting. Financials have outperformed so far the rest of corporate space, while credit inflows both in USD and EUR IG and HY, are expected to be supportive of spreads on both sides of the Atlantic. We would cautiously add to our positions EUR names. We favour lower duration exposure and look for decent carry and roll down exposure between 4-6 years duration. Overall, as inflation will not turn up soon, we do not expect EUR rates to increase much, even if data improves somewhat.

II. Advanced Economies

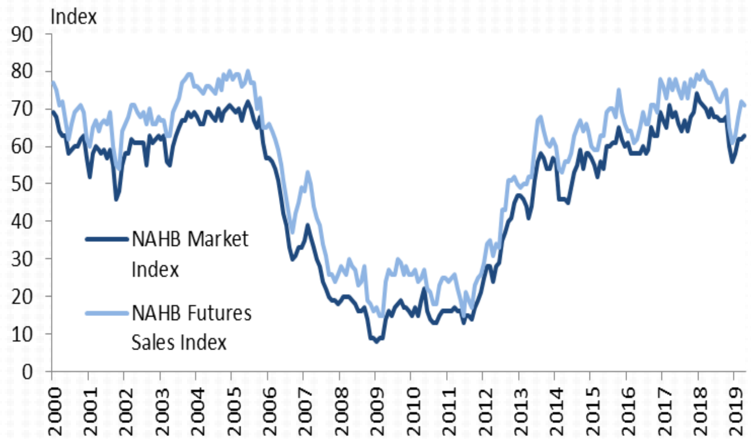
- USA
- Euro Area
  - ❖ Germany
  - ❖ France
  - ❖ Periphery (Italy, Spain, Cyprus)
- UK

USA: Economic expansion still on track, with an expected bounce back in Q2 GDP as earlier distortions gradually fade

ISM has showed signs of stabilization in recent months



Rebound in NAHB housing market index on rising future sales



Latest Economic Developments

The current economic expansion is still on track, with a strong labor market and, consequently, a healthy household sector. The March employment situation report revealed a sharp bounce in payroll growth (+196k) after February's stall (+33k), with the Q1 average remaining consistent with above-trend growth (+180k), while initial jobless claims have reached 50-year lows. Meanwhile, March retail sales rose by a higher than expected 1.6%MoM rate, the biggest increase since September 2017, following a 0.2%MoM drop in February. Although the industrial sector has faded from 2017 & 2018 strong levels (IP: +2.8YoY in March from an 8-year peak of 5.4%YoY in September 2018), manufacturing PMIs have risen since the start of the year while capital goods shipments increased by a hefty 1.0%MoM in January before falling by a marginal 0.1% in February, boding well for the industrial activity and the investment outlook in the months ahead. Elsewhere, the housing market seems to have stabilized somewhat due to lower rates after five quarters of negative contribution to growth. Overall, we maintain our real GDP growth at 2.4% in 2019 down from 2.9% in 2018, with an expected bounce back in Q2 as earlier distortions gradually fade.

Central Bank Watch

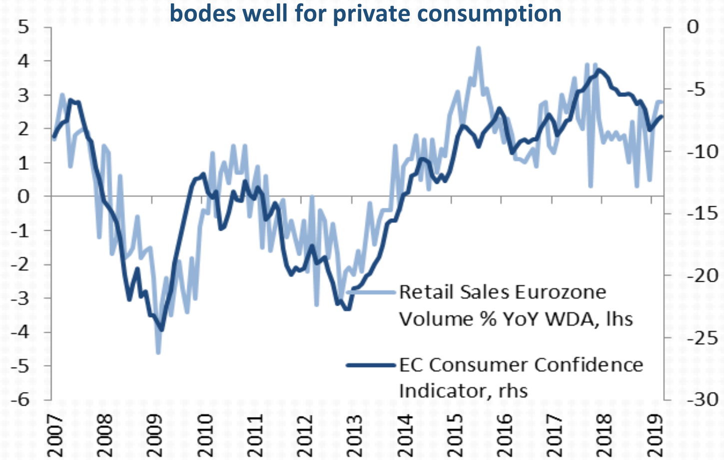
The March FOMC minutes reiterated all the information that was communicated at the March policy statement and press conference, with the majority of FOMC members expecting that the US economic outlook and the associated risks would warrant unchanged interest rates throughout 2019. Several participants pointed out that the appropriate target range for the fed funds rate could shift in either direction at the following FOMC meetings depending on the evolution of the economic outlook. We continue to expect no interest rate adjustments at least by the end of 2019, while the anticipated GDP growth deceleration raises the chances that the Fed's next move could be an interest rate cut. The fed futures market is currently attaching a probability of ca. 40% for a 25bp cut in December 2019 vs. 50% one month earlier.

Source: Federal Reserve, ISM, NAHB, Bloomberg, Eurobank Research

Euro area: Signs of stabilization raise expectations for a modest recovery in the coming quarters

Tentative signs of domestic resilience

The recent bounce back in retail sales bodes well for private consumption



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

Latest Economic Developments

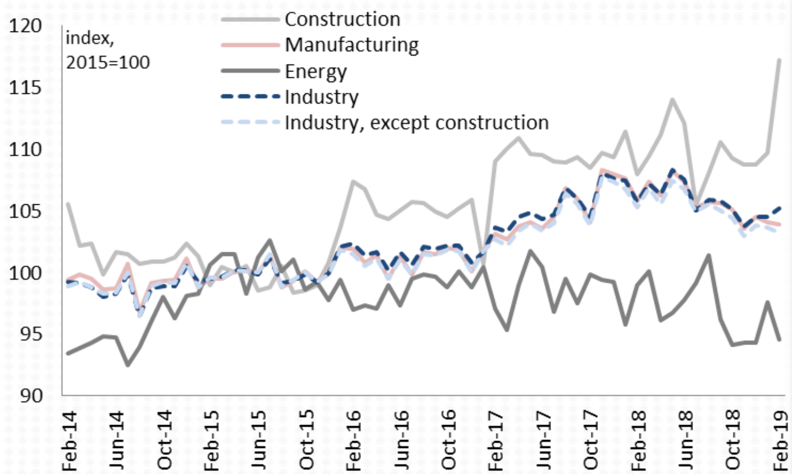
Latest economic data provide some evidence of domestic resilience, with an upwards revised IP growth in Jan (to 1.9%MoM) and a small negative print in Feb (-0.2%MoM), suggesting that Q1 IP growth should contribute positively to overall growth. Although April "flash" Composite PMI disappointed falling by 0.3pts to a 3-month low of 51.3 - with services falling by 0.8pts to a 3-month low of 52.5 and manufacturing edging up 0.3 at a 2-month high of 47.8- weaker growth in non-core economies seems to be the reason behind the April's loss of momentum. A strong service sector in Germany helped sustain the expansion, while French services recovered from recessionary territory. The improvement in China's macroeconomic data and the ongoing encouraging signs in the US bode well for EA external demand. Said that, as the negative effect from temporary factors that held euro area growth back gradually dissipates (e.g. Germany's auto sector, "yellow vest" protesters in France), we expect real economic activity to recover somewhat in the following quarters, with 2019 real GDP growth coming in at 1.2% from 1.8% in 2018. The potential of higher auto tariffs imposed by the US on the European auto sector, the possibility of a no-deal Brexit and Italian political risks continue to pose downside risks to our baseline forecast.

Central Bank Watch

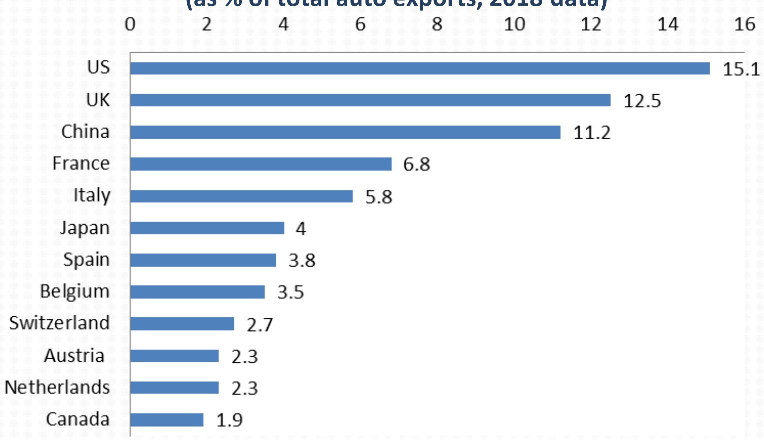
At its April 10 monetary policy meeting, the ECB highlighted that it stands ready to use all its instruments, if required, in order to ensure its price mandate, reiterating its forward guidance for unchanged rates at least through the end of the year. Looking ahead, June looks as the most likely time for the TLTRO III details to be unveiled, when the ECB will publish its updated macroeconomic staff projections. Potential mitigation measures may not be announced at the same time, but wait until September together with the formulation of forward guidance. Although future markets currently price in 10bps of rate tightening by end-2020 and an additional 20bps by end-2021, the ECB might delay further the first hike –or even ease further its monetary policy stance- should the Euro area's macroeconomic conditions deteriorate further.

Germany: Manufacturing production still in a downtrend; turnaround seems unlikely near-term

Manufacturing production still in a downtrend



US the most important export market for German vehicles (as % of total auto exports, 2018 data)



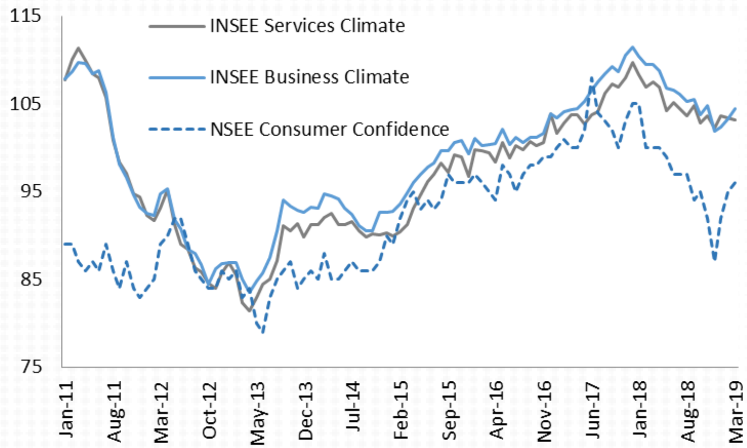
Source: Federal Statistical Office (Destatis), Eurostat, Eurobank Research

Latest Economic Developments

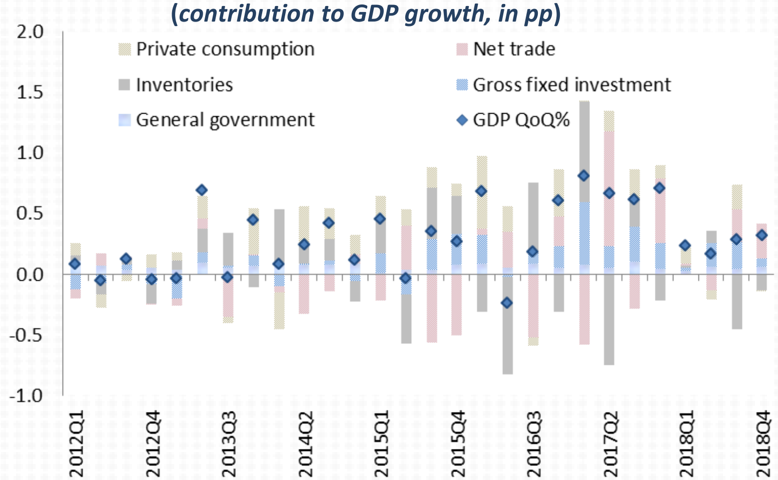
Industrial output expanded by a higher than expected 0.7%MoM in February, while the January's print was revised up to 0.0%MoM from -0.8%MoM previously. Looking at sectoral data, the February increase was solely attributed to the stellar construction output growth (6.8%MoM) thanks to mild weather. Excluding construction, industrial production dropped 0.4%MoM, the fifth decline in the last six months, as both manufacturing and energy slid (0.2%MoM and -3.1%MoM, respectively). With respect to the manufacturing sector, production fell mainly due to a hefty drop in the machinery and equipment sector (-2.4%MoM) while output in the motor vehicle production rose by 1.9%MoM, recovering part of January's 4.3%MoM drop, as some idiosyncratic factors (e.g. Audi Hungarian strike) have probably eased. The February rise in industrial production lifts the Q1 2019 carry-over effect to 0.5%QoQ from -1.1%QoQ in Q4 2018. However, disappointing new manufacturing orders and weak sentiment indicators give no hopes for an end to the downward trend any time soon. Incoming factory orders fell 4.2%MoM in February after having already dropped 2.1%MoM in January, underscoring their protracted weak momentum. The main reason for the February drop was subdued foreign demand (-6.0%MoM), and particularly foreign orders outside the euro area (-7.9%MoM), supporting the view that the external backstop remains challenging for the German economy (US/China trade tensions, uncertainty about Brexit, China growth slowdown, the risk of the US imposing tariffs up to 25% on cars imported from the EU). Along similar lines, despite the fact that the IFO Business Climate Index rose 0.9 points to 99.6 in March, marking the first increase in seven months, it still stood at the second lowest level in the last two years and below the long-term average. Due to weaker foreign demand and increased headwinds for exporters, the German government halved its 2019 GDP growth forecast to 0.5% from 1.0% expected in January, lower than a recent estimate of 0.8% by Germany's leading economic institutes. The German government expects GDP growth to rise 1.5% in 2020, partly due to positive calendar effects.

France: Disruption to economic activity from the 'yellow vest' movement is gradually fading

National survey indicators have rebounded from December lows but remain below their 2018 averages



Exports firmly contributed to GDP growth in H2 2018 thanks to solid aeronautical and naval equipment deliveries (*contribution to GDP growth, in pp*)



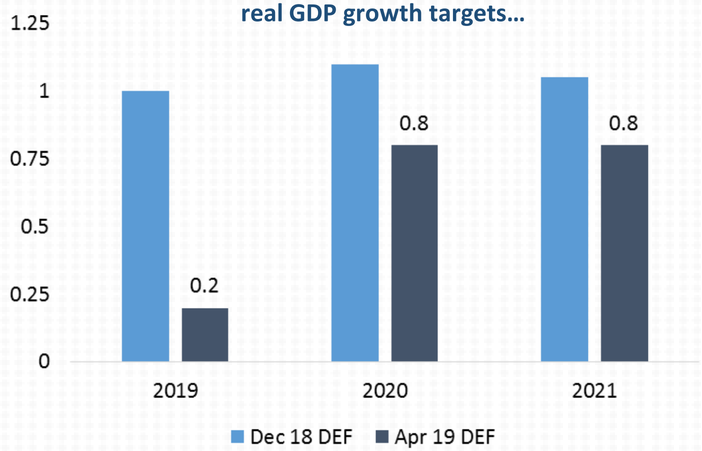
Source: INSEE, Eurobank Research

Latest Economic & Political Developments

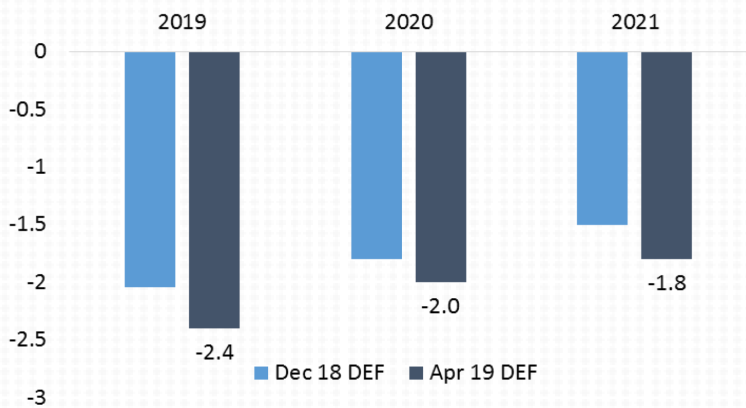
Industrial production rose 0.4%MoM in February, the third consecutive monthly increase, supported by a 1.1%MoM gain in both manufacturing and construction output. The annual rate decelerated to 0.6% from January's two-year high of 1.7%, albeit still the second highest since August 2018. Along similar lines, the latest national business surveys point to a positive economic growth outlook, suggesting that the disruption to economic activity from the 'yellow vest' movement is gradually fading. The INSEE Business Climate Indicator improved in March for the third consecutive month coming in at 104.5, after plunging to a near two-year trough of 101.9 in December. In a similar encouraging tone, the INSEE Services Climate Indicator stood at 103.2 over the same month, not far from January's 103.6 year-to-date high following a drop to a two-year trough of 102.2 in December. However, both leading indicators remained well below their 2018 averages (106.6 & 105.0, respectively), suggesting that, although France's growth prospects seem rather positive, we do not see risks of an acceleration in GDP growth. That said, Q1 GDP is expected to grow by 0.3%QoQ for the third consecutive quarter, with private consumption anticipated to be the main growth driver on the back of rising wages and a sizable fiscal stimulus (January's unemployment rate at a 10-yr low of 8.8% & wage growth at a 5-year peak of 2.1%QoQ in Q4 2018). Supporting the above, the INSEE Consumer Confidence Index improved in March for the third consecutive month (at 96), surpassing the levels that prevailed before the start of the 'yellow vest' protests in November 2018. However, in spite of the three-month rising streak, the index remained below its long-term average (100), suggesting that the expected recovery in private consumption is likely to be relatively modest. Furthermore, against the backdrop of a more challenging external environment and weakening EU growth, the contribution of exports to 2019 GDP growth is likely to decrease significantly. We now expect 2019 GDP to grow 1.2%, down 0.1pp from last month's forecast.

Italy might have exited from technical recession in Q1, but downside risks to the outlook loom large

The government's DEF revised downwards real GDP growth targets…



…coupled with an upwards revision of budget deficit targets



Source: Italy MEF, Eurobank Research

Latest Economic & Political Developments

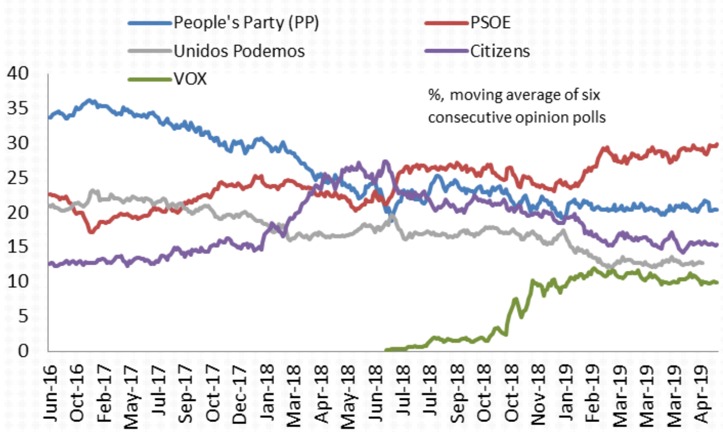
Following the upward revision of real GDP growth by 0.1pp to -0.1%QoQ in Q4 18, industrial production growth surprised to the upside for the second consecutive month in February, expanding 0.8%MoM after an upwards revised monthly growth of 1.9% in January. The industrial activity rebound, largely driven by manufacturing activity that expanded 1.3%MoM in February following a 1.4%MoM in January, provided encouraging evidence that Italy might have exited from technical recession in Q1. Adding to the above, the Composite PMI broke a recessionary 5-month streak in March increasing 1.9p to 51.5, above the threshold of 50.0 mark that distinguishes expansion from contraction. The services sector rebound was robust, increasing 2.7p to 53.1, while the manufacturing sector dropped further by 0.3p to 47.4 due to falling new orders. Overall, we are cautiously optimistic on Italy's growth prospects, expecting a slight acceleration in H2 on the back of government's fiscal support measures. Our 2019 GDP growth forecast remains unchanged at 0.2% from 0.9% in 2018, but heightened political uncertainty constitutes a downside risk to our growth outlook. To this end, the Italian government approved its medium-term economic and financial document, downgrading its real GDP growth target to 0.2% from 1.0%, previously, and increasing its deficit target to 2.4%-of-GDP for 2019 from 2.04%. It should be noted that the EU rules focus on the structural budget deficit which strips out cyclical factors. As such, a higher deficit due to lower growth should not lead to more austerity measures. Nevertheless, BoI accounts that the 2020 deficit will reach 3.4% without a VAT hike next January (worth €23bn), combined with uncompromising statements from the Italian government concerning the VAT and other measures, point to difficult 2020 budget negotiations in the autumn of 2019.

In the meantime, the 26 May European elections outcome could have significant implications for the Italian political landscape. If May's election confirms the declining 5SM's trend and the League's increased popularity, the latter could precipitate a government crisis leading to a coalition reshuffle (potentially a centre-right coalition between League, FI and BoI) or snap elections in H2 2019.

Spain: Expansion continues but at a more moderate pace; 28 April election likely to yield a fragmented political landscape

22% increase in monthly minimum wage as of Jan. 2019

Published opinion polls point to another hung parliament



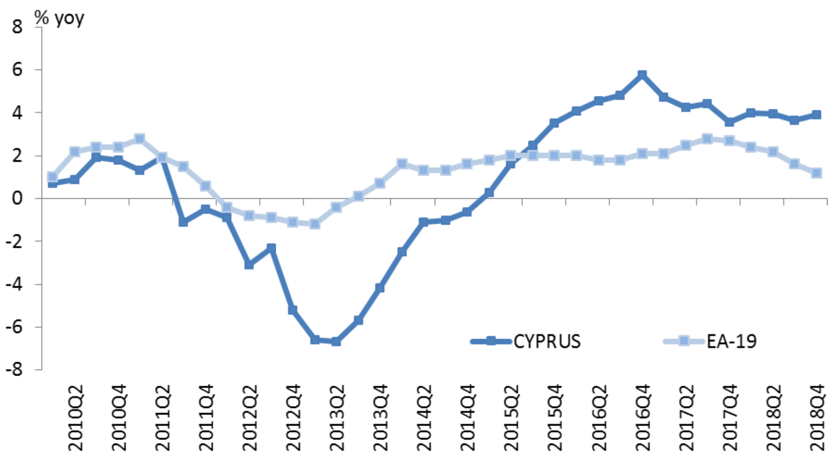
Source: Eurostat, Press reports, Eurobank Research

Latest Economic & Political Developments

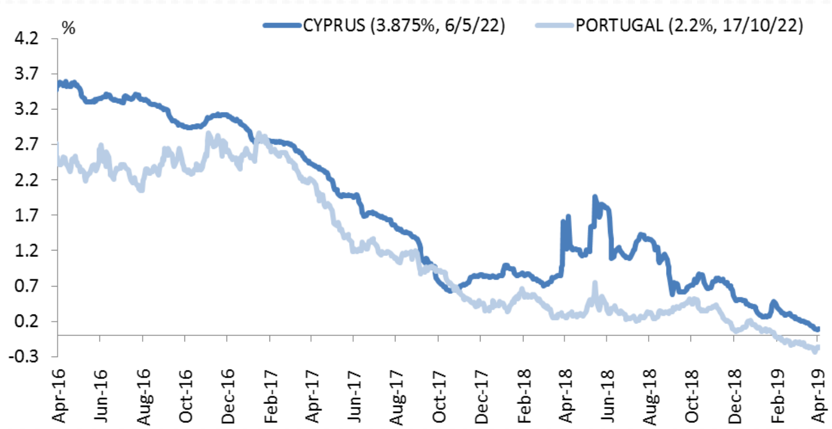
After a robust growth rate of 2.5% in 2018, above the Eurozone's 1.8% annual average, available data suggest that Spain's economic expansion continues, but at a more moderate pace. Industrial production dropped 1.1%MoM in February, the fourth monthly decline in the last six months, contrasting January's solid 3.6%MoM rise. All sectors showed negative monthly prints, especially that of energy (-3.7%MoM). As regards the latest soft data, the HIS Markit Manufacturing PMI returned to positive territory in March rising to 50.9 after falling below the 50.0 no-change mark in February (49.9) for the first time since November 2013. In spite of the March improvement, the manufacturing PMI averaged 51.1 in Q1, slightly lower compared to an average of 51.8 in the prior quarter, with the Composite PMI pointing to a quarterly GDP growth rate of c.0.5%QoQ vs. 0.6%QoQ in Q4 2018. On the demand front, retail sales rose by 0.3%MoM in February with the annual rate coming in at a 4-month peak of 1.2%YoY, supported by contained inflation pressures (HICP at 1.3%YoY in March vs. 2018 average of 1.7%), solid employment growth and rising wages. However, looking ahead, private consumption is anticipated to moderate amid expectations for slower employment growth following the government's decision for a 22% rise in the minimum wage from €850 per month to €1,050 as of January 2019, the largest increase since 1977. An expected rebound in the households' net saving rate from 5.5% record lows may also contribute to a slowdown in private consumption this year. In all, Spain's 2019 GDP growth is likely to decelerate further to 2.2%, in line with the slowdown that began back in 2016 amid a maturing economic cycle. Risks to our forecast are skewed to the downside mainly related to external headwinds and increased political uncertainty, both domestic and external. With just a few days left before the 28 April snap election, polls point to an increasingly fragmented political landscape. The formation of a coalition government is likely to be tough and could take time. A month later, Spain will hold regional elections (26 May) and the results may influence the government formation process.

Cyprus: Rating agencies remain on hold

Cyprus turn-around growth story has been impressive so far



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



Source: National Authorities, Bloomberg, Eurobank Research

Latest Economic & Political Developments

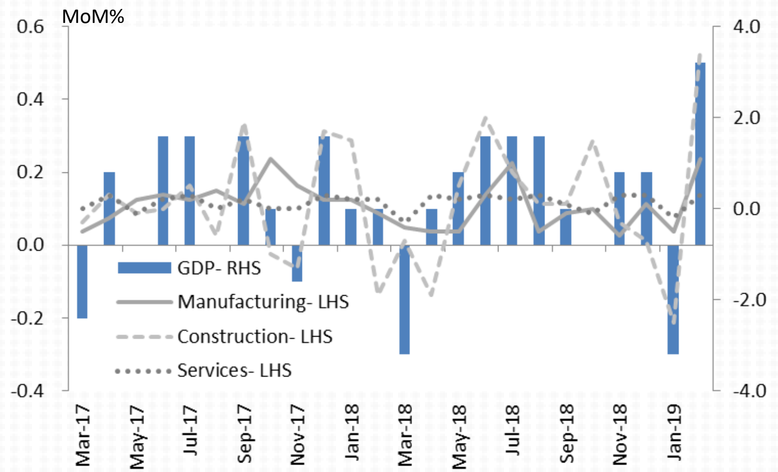
In mid-April, FITCH affirmed the sovereign rating of Cyprus at BBB- with a stable outlook. In its analysis, FITCH argued that the ratings is based on the broad-based economic recovery and the substantial budget surplus but also on the crisis legacy of high public debt and non-performing exposures (NPEs) in the banking sector. FITCH forecasts GDP growth to slow in 2019 and 2020 to 3.5% and 2.8%, respectively, as the spare capacity in the economy has been gradually absorbed and the external environment becomes less supportive.

Overall, all major rating agencies (FITCH, DBRS, Moody's and now S&P) upgraded their long-term sovereign rating of Cyprus in 2018, awarding at least one notch in their respective rankings. However, in the last round of assessments, the rating agencies appeared reluctant to make their latest views public. Recall, that Standard & Poor's postponed the scheduled sovereign rating assessment of Cyprus in early March. In late March, Moody's became the second agency in a row to postpone its own. This is not the first time rating agencies do that. For instance, Moody's had done the exact same thing in February 2018. Nevertheless, it was widely expected that Moody's would upgrade the sovereign rating of Cyprus by at least one notch.

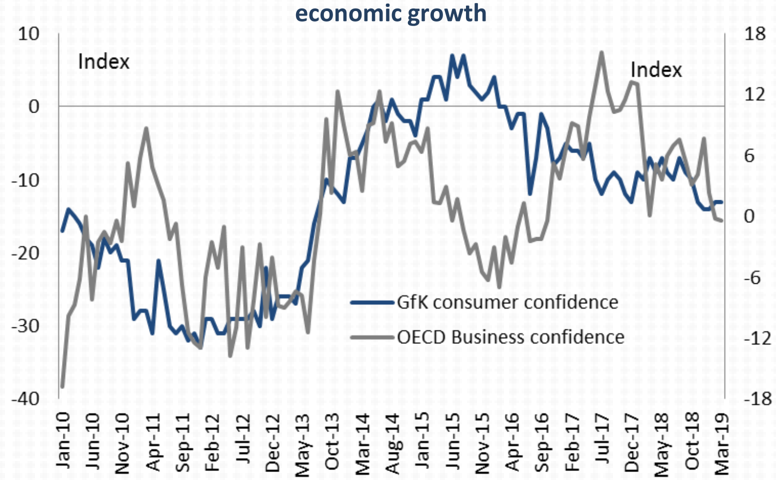
In the press release, Moody's stated that it had completed a periodic review of sovereign issuers, including Cyprus. However, it clarified that the review did not involve a rating committee, and its publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Following the last round of assessments, a slight divergence of views between the rating agencies on the sovereign rating of Cyprus still remains. Moody's is the only agency among the four major ones, which classifies Cyprus two notches below investment grade status.

UK: Contingency planning boosted February's GDP but downside risks prevail mainly due to prolonged Brexit uncertainty

February's GDP surprised on the upside on strong inventory build-up



Weak business and consumer confidence do not bode well for economic growth



Source: ONS, Bloomberg, Eurobank Research

Latest Economic Developments

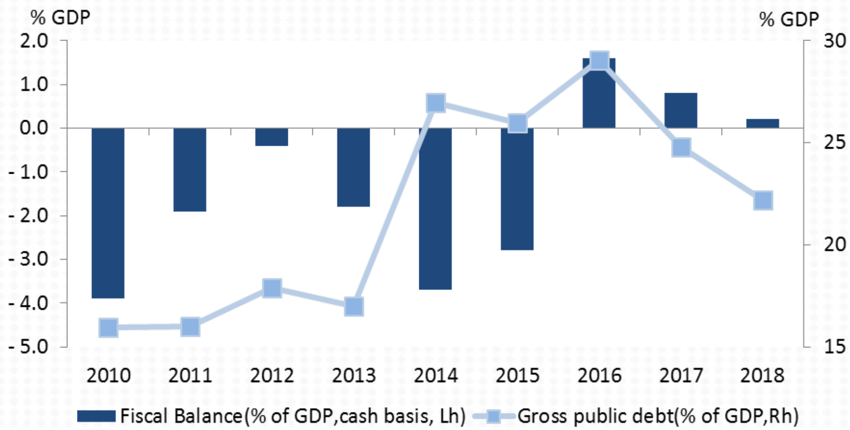
Proving more resilient than expected in the face of Brexit headwinds and a slowing global economy, UK economic growth in February surprised on the upside. GDP growth rose 0.2%MoM, above market expectations for a flat figure but below a 0.5%MoM advance in the prior month, after contracting 0.3%MoM in December 2018. In annual terms, February's GDP grew 2.0%, the highest since November 2017, favored by positive base effects (adverse weather conditions in January/February 2018) while the carry over rose to 0.5pp from 0.4pp in January. Although all three sectors increased, the main driver behind February's positive growth performance was a burst in manufacturing, driven by boosted inventory stockpiling ahead of the initial scheduled Article 50 deadline on 29 March, amid fears about general disruptions in case of a no-deal Brexit. A large proportion of inventory buildings was probably consisted of imports, as suggested by the widening trade deficit (up by £5.5bn to £13.6bn in the three months to February due to a £6.5bn widening in the trade goods deficit). Breaking out of its technical recession in January, manufacturing sector grew 0.9%MoM in February, with the respective index standing at its highest level since April 2008. The construction sector grew 0.4%MoM, favored by unusually warm weather (February temperatures at the hottest ever), while the services sector rose 0.1%MoM. Firmer than expected GDP prints in January and February point to a growth rate of c. 0.4%QoQ in Q1 from 0.2% in Q4 2018, with risks tilted to the downside after recent survey data hint at weaker GDP growth in March (e.g. Markit PMI for the services sector –which makes up around 80% of UK output –fell into contractionary territory for the first time since mid-2016, Gfk consumer confidence stood close to 5½ year lows and business confidence dropped further at its lowest level since August 2016). Looking head, Brexit uncertainty could amplify downside risks, while inventories are expected to have a negative contribution to growth in the coming quarters, as businesses are expected to run down inventories following a six-month extension to Brexit. For now, we retain our 2019 annual growth forecast of 1.2%.

III. Selected CESEE economies

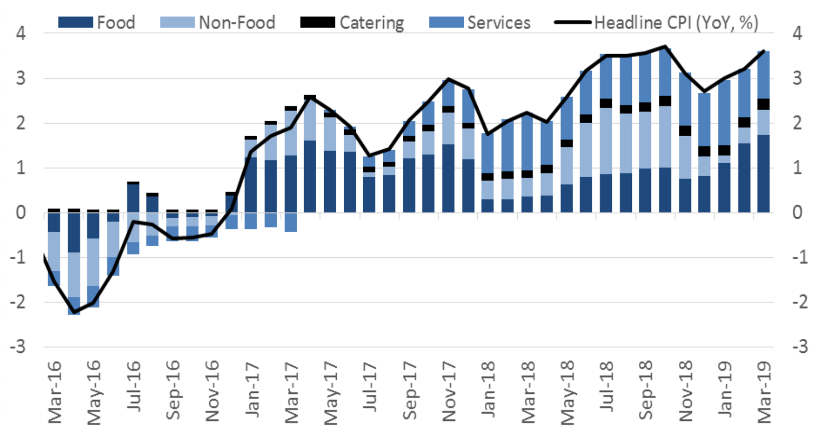
- Bulgaria
- Serbia
- Turkey

Bulgaria: Stable GDP growth outlook amid inflationary pressures

Bulgaria's fiscal position is sound



Headline inflation rebounded in Q1-2019 on higher food prices



Source: National Authorities, Eurobank Research

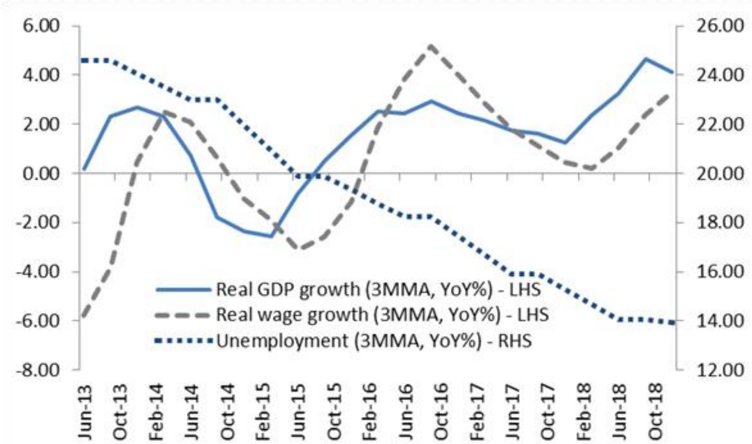
Latest Economic & Political Developments

In the Spring World Economic Outlook, the IMF maintained its 2019 and 2020 GDP growth forecasts for Bulgaria at 3.3% and 3.0% YoY, respectively. In terms of price stability, the average annual inflation is forecast to decrease to 2.4% YoY in 2019 from 2.6% YoY in 2018 and inch slightly further down to 2.3% YoY in 2020. However, inflation accelerated from 3.2% YoY in February to 3.6% YoY in March, its highest reading since September 2018. In our view, inflation is likely to continue accelerating in the next few months taking into account the recent surge in global oil prices as well as the sizable pressure from volatile food prices. Indeed, CPI in the food segment increased 5.6% YoY in March from 5.0% YoY in February and 3.6% YoY in January, mirroring the price growth in cereal prices (11.4% YoY) and vegetables (27.0% YoY) due to seasonal factors (anemic harvest in the previous year).

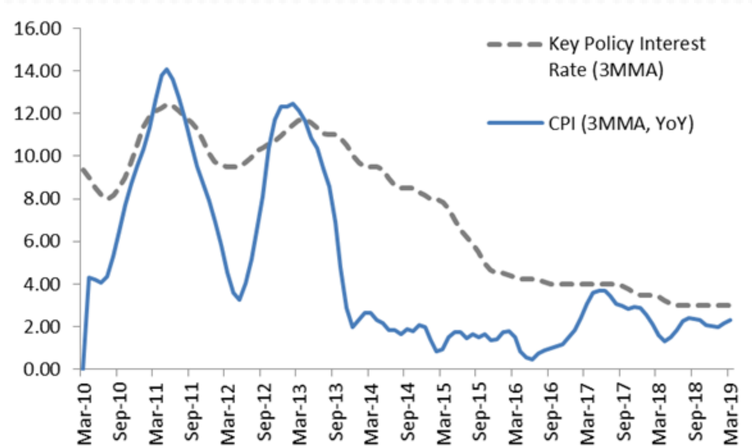
Finally, regarding Bulgaria's current account balance, the IMF forecasts the surplus to narrow from 4.6% of GDP in 2018 to 1.9% in 2019 and 1.3% in 2020 with risks skewed to the downside, mainly related to weaker-than-expected growth of trading partners, including Turkey. However, according to the latest data released by the National Bank of Bulgaria (BNB), the current account surplus increased by 111.9% YoY to €416.2mn in February. The strong improvement was broadly based on the narrowing of the trade and the primary income deficit and the mild widening of the secondary income surplus during the month. The goods trade deficit shrank by 54.0% YoY to EUR 111.1mn mirroring a sizable acceleration of exports growth by 24.4% YoY. Imports expanded by 15.6% YoY, presumably on the back of solid domestic demand and the surge of global oil prices in February. The primary income posted a EUR10.6mn surplus in February visibly recovering from a EUR66.4mn deficit in the same month of the previous year. The improvement reflected, inter alia, portfolio investment revenues from Bulgaria in February.

Serbia: Modest GDP growth in 2019 amid inflationary pressures

Solid GDP growth and firm labour market…



…under loose and stable monetary circumstances



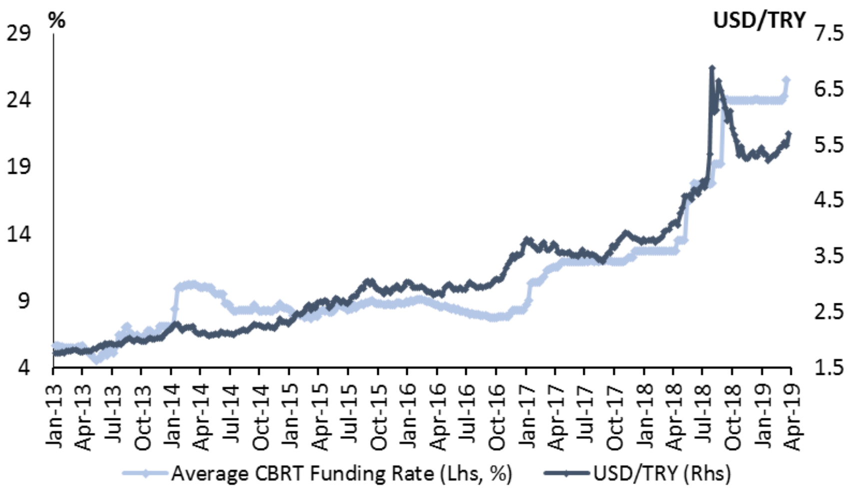
Source: Bloomberg, Eurobank Research

Latest Economic Developments

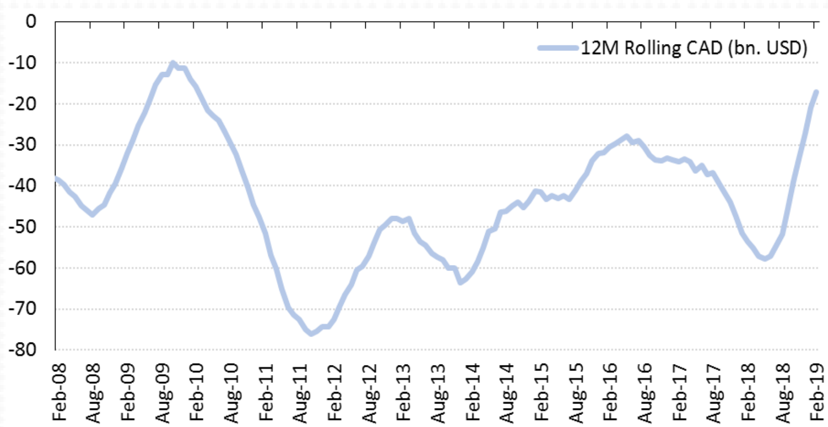
In the Spring World Economic Outlook, the IMF maintained its 2019 and 2020 GDP growth forecasts for Serbia at 3.5% and 4.0% YoY, respectively. In terms of price stability, the average annual inflation is expected to decrease to 2.0% YoY in 2019 from 2.2% YoY projected earlier in October. Despite inflation coming in higher at 2.8% YoY in March, from 2.4% YoY and 2.1% YoY in February and January respectively, driven by increases in food and transport prices, the National Bank of Serbia (NBS) noted in its monthly Monetary Policy Committee (MPC), which took place ahead of March's inflation data release, that inflation remains low and stable and reiterated its expectation that it will remain bound within the 3.0%±1.5pp tolerance band. Regarding Serbia's current account balance (CA), according to official data released by the NBS, the deficit widened further by ca 120% YoY to EUR313mn in February taking the year-to-February deficit to €455mn. The widening of the CA deficit in the first two months of the year was broadly driven by the goods trade deficit broadening by 26.8% YoY due to stronger imports. Higher surpluses on services and secondary income accounts along with a lower deficit on the primary income account could only partly offset the trade gap developments. However, it is positively considered that the CA deficit was completely financed by non-debt flows as net FDIs reached EUR 534.9mn, enhanced by 2.0% YoY. The NBS projects that the CA deficit will narrow to 5.0% of GDP in 2019 from 5.2% of GDP in 2018, thanks to the improved balance of services and more favorable developments in the primary income account. On the contrary, the IMF is not that optimistic and anticipates the CA deficit to reach 5.5% of GDP for 2019. Concluding, during the Spring Meetings of the IMF and the World Bank Group in Washington D.C., the Serbian delegation, led by the Governor of the NBS Jorgovanka Tabaković, met Mr. Tao Zhang, the IMF Deputy Managing Director. Mr. Zhang assessed that Serbia is fully committed to the implementation of reforms and that the IMF will continue to provide full support to the key reforms in Serbia while Governor Tabaković outlined that within the past five years, Serbia has gone a long way in terms of strengthening macroeconomic stability.

Turkey: Focus turns to real economy after municipal elections

Turkish Lira continued strengthening in Q1 2019



Macroeconomic imbalances have been unwinding rapidly in 2018-19



Source: National Authorities, Bloomberg, Eurobank Research

Latest Economic & Political Developments

The markets attention has turned to the real economy in the aftermath of the municipal elections held in late March. In the latter, the ruling AKP party candidates have been defeated across many cities including Istanbul and Ankara, for the first time since the party's founding in 2001. Even though the alliance AKP-MHP won more than 50% of the popular vote nationwide and the results in Istanbul have been challenged by AKP, the loss of major cities has been an embarrassing event for the leadership of Mr. Erdogan, increasing political uncertainty. In addition, although US-Turkey relations had been improving, tensions with US due to the S-400 missile purchases from Russia cannot be ruled out in the coming period. On the other hand, given that next general election is scheduled for June 2023, The government has announced a new set of stimulus measures including a state-owned banks' recapitalization plan, measures against food inflation and the formation of two funds for banking sector NPLs clean-up, all aiming at invigorating the ailing economy (in technical recession as of Q4-2018).

On the data front, there are some timid signs of a rebound in Q1-2019, with the recent announcements of leading indicators such as industrial production, PMI and economic sentiment pointing to a bottoming out. Industrial production, on a seasonally and calendar adjusted basis, was in positive territory for a second consecutive month for the first time since July, expanding by 1.3% MoM up from 1.0% MoM in January. The annual pace of contraction has retreated to -5.1% YoY in February, slightly better than the market consensus of -5.3% YoY-and the -7.4% YoY reading in January. Unemployment has climbed by 3.9ppts to 14.7% in January, at the highest level since 2009. Non-farm unemployment appears even higher, standing at 16.8% while youth unemployment in particular is considered worryingly high at 26.7%. Despite the supply side shock from rising food and energy prices, headline inflation has retreated to 19.7% YoY in March unchanged vs. February but still lower from its historic highs in recent months.

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)		
	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f
World	3.6	3.3	3.5	3.6	3.6	3.6									
Advanced Economies															
USA	2.9	2.4	2.0	2.4	2.0	2.2	3.9	3.7	3.6	-2.4	-2.5	-2.9	-3.8	-4.5	-4.5
Eurozone	1.8	1.2	1.4	1.8	1.3	1.5	8.2	7.6	7.4	3.0	2.9	2.8	-0.6	-1.0	-1.0
Germany	1.4	0.8	1.4	1.9	1.5	1.6	3.4	3.2	3.2	7.6	7.3	6.7	1.6	1.0	0.6
France	1.5	1.2	1.4	2.1	1.3	1.6	9.1	8.8	0.6	-0.3	-0.6	-0.5	-2.7	-3.2	-2.5
Periphery															
Cyprus	3.9	3.3	3.0	0.8	1.0	1.5	8.4	7.5	7.0	-7.0	-7.5	-7.0	2.9	3.0	2.6
Greece	1.9	1.9	2.0	0.8	1.0	1.5	19.3	17.7	16.4	-2.9	-2.6	-2.4	0.6	0.6	0.6
Italy	0.9	0.2	0.7	1.3	1.0	1.0	10.6	10.6	10.5	2.6	2.9	2.6	-2.1	-2.7	-3.0
Portugal	2.1	1.6	1.5	1.2	1.0	1.5	7.0	6.5	6.2	-0.6	-0.2	-0.2	-0.8	-0.6	-0.6
Spain	2.5	2.2	1.9	1.7	1.3	1.6	15.3	13.9	12.8	0.9	0.9	0.9	-2.7	-2.2	-2.0
UK	1.4	1.2	1.5	2.5	2.0	2.0	4.1	4.2	4.1	-3.9	-3.5	-3.4	-1.4	-1.5	-1.3
Japan	0.8	0.8	0.5	1.0	1.0	1.2	2.4	2.4	2.4	3.5	3.5	3.5	-3.2	-2.8	-2.1
Emerging Economies															
BRICs															
Brazil	1.1	2.0	2.5	3.7	3.8	4.0	12.3	11.4	10.4	-0.8	-1.3	-1.7	-7.3	-6.5	-6.0
China	6.6	6.3	6.0	2.1	2.1	2.3	3.8	4.0	4.0	0.4	0.1	0.0	-2.2	-4.2	-4.2
India	7.2	7.0	7.2	4.0	3.4	3.8		*NA*		-2.4	-2.4	-2.2	-3.6	-3.4	-3.4
Russia	2.3	1.5	1.7	2.9	5.0	4.0	4.8	4.8	4.9	7.0	5.5	4.2	2.6	1.8	1.0
CESEE															
Bulgaria	3.2	3.5	2.8	2.6	2.8	2.5	5.2	5.3	5.7	4.6	1.0	1.0	0.1	-0.5	0.0
Romania	4.1	3.6	3.4	4.7	3.3	3.0	4.2	4.0	4.2	-4.7	-5.2	-4.8	-2.9	-3.4	-4.7
Serbia	4.2	3.5	3.8	2.0	2.6	2.8	12.7	11.0	10.5	-5.2	-5.3	-4.9	0.4	-0.5	-0.5
Turkey	3.3	-1.5	3.0	16.3	16.0	12.5	10.9	13.0	12.5	-3.5	-2.5	-3.0	-2.1	-2.3	-2.0

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

Eurobank Fixed Income Forecasts

	2019				2020
	Current (as of 19 April)	June	September	December	March
USA					
Fed Funds Rate	2.25-2.50%	2.25-2.50%	2.25-2.50%	2.25-2.50%	2.25-2.50%
1 m Libor	2.48%	2.48%	2.43%	2.40%	2.33%
3m Libor	2.58%	2.57%	2.54%	2.51%	2.42%
2yr Notes	2.38%	2.35%	2.35%	2.33%	2.31%
10 yr Bonds	2.56%	2.60%	2.65%	2.70%	2.75%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.31%	-0.31%	-0.31%	-0.31%	-0.30%
2yr Bunds	-0.57%	-0.57%	-0.57%	-0.55%	-0.52%
10yr Bunds	0.03%	0.07%	0.11%	0.15%	0.19%
UK					
Repo Rate	0.75%	0.75%	0.75%	0.75%	0.75%
3m	0.82%	0.86%	0.89%	0.95%	0.98%
10-yr Gilt	1.20%	1.25%	1.30%	1.32%	1.35%
Switzerland					
3m Libor Target	-0.75%	-0.75%	-0.75%	-0.75%	-0.75%
10-yr Bond	-0.32%	-0.29%	-0.25%	-0.20%	-0.17%

Source: Bloomberg (market implied forecasts)

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