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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:** Robust personal consumption expenditures offset broad-based weakness in fixed investment
- **EA:** The upturn in industrial activity suggests upside risks to Q2 GDP, but downside risks take centre stage
- **UK:** May GDP bounced back but underlying growth momentum remains soft
- **EM:** Economic growth is set to slow in 2019
- **CESEE:** The broader region is poised for a weaker Q2 growth reading

Policy Outlook

- **USA:** Three rate cuts expected in H2 2019 (July, September and December)
- **EA:** First deposit rate likely in September; Deposit tiering and QE relaunch are also possible
- **UK**: The BoE is expected to stay put on rates throughout this year with the next move more likely to be downwards rather than upwards, especially in the event of a no-deal Brexit
- **CESEE:** Regional central banks remain mostly on hold amid a dovish global backdrop

Summary

The global economic outlook has recently taken a turn for the worse, with muted inflationary pressures and risks skewed to the downside. Major central banks expected to embark on a simultaneous policy easing to sustain global economic expansion and limit downside risks to the outlook, with rate cuts likely in the US, Europe and several EMs.

Markets

- **FX:** Currency central bank decisions have been the key drivers of FX pairs this month with USD so far the winner on the back of a dovish ECB. The Fed on 31/07 will give direction from current levels
- **Rates:** European yields reached all-time lows as US yields stabilized in a world where all central banks are now in cutting mode (DM and EM). Bunds reached a record low of -0.42%
- **EM:** EM credit remains in a sweet spot, despite growth issues, as global monetary easing is boosting the appeal of the asset class
- **Credit:** The tightening trend continued especially in IG with financials outperforming with duration extension in vogue. The primary market remained busy while HY is still driven by idiosyncratic stories

Key Downside Risks

- **Re-escalation of trade war:** Renewed escalation in US-China trade dispute; the US imposes EU auto tariffs
- **Increased EU political uncertainty:** Renewed confrontation between Italy and the European Commission
- **No-deal Brexit:** UK PM Boris Johnson fails to reach a new Brexit agreement with the EU and pursues a no-deal Brexit policy while the UK Parliament fails to build a stable majority to prevent such a scenario
- **EM sensitivity:** Persistent trade policy shocks weigh on EM macro picture
- **China:** Risk of hard-landing for China lingers

Macro Views

Eurobank

Latest Macroeconomic Developments & Outlook

World Economic Outlook		The global economic outlook has recently taken a turn for the worse, with muted inflationary pressures and risks skewed to the downside. Elevated uncertainty amid escalating trade tensions and renewed Brexit-related woes has weighed on business and consumer confidence, curbing the propensity of households and businesses to consume and invest. Given a weakening global industrial cycle, major central banks are expected to embark on a simultaneous policy easing to sustain global economic expansion and limit downside risks to the outlook, with rate cuts likely in the US, Europe and several EM economies. Such monetary policy accommodation, which induces other major central banks to move towards policy easing as well, combined with healthy labor market conditions and solid personal consumption in most major economies, are expected to support the ongoing global expansion, with real GDP global growth projection at 3.2% in 2019 from 3.6% in 2018.
Developed Economies	**US**	Real GDP increased by 2.1%QoQ saar in Q2, with robust private and government spending offsetting weakness in fixed investment, external demand and inventory accumulation. Our real GDP growth projection currently stands at 2.4% in 2019 from 2.9% in 2018, with strong personal consumption growth partially offsetting the negative growth effects of sluggish fixed investment amid weaker global growth dynamics and domestic manufacturing confidence.
	Euro Area	Although latest indicators pertaining to Q2 2019 point to a generalized loss of momentum (weak retail sales, construction output fall), hard industrial production data have been holding up relatively well defying the rather bleak picture of business surveys. Overall, we maintain our 2019 real GDP growth projection at 1.1% from 1.9% in 2018, as subdued global demand, increased economic uncertainty and mounting trade war frictions weigh on the economic outlook.
	Periphery	Though data pertaining to early Q2 point to a slightly lower pace of GDP growth compared to 0.7%QoQ in Q1, the fastest rate since Q4 2017, Spain remains the star performer among all EU periphery economies and the fastest growing economy among euro area's big four countries. On the flipside, Italy remains the weak link among big euro area economies, with heightened political uncertainty constituting a major risk to its growth outlook. The risks surrounding the growth outlook of all periphery economies are tilted to the downside, stemming from fears of a no-deal Brexit, higher US tariffs on the EU auto sector and a return to a tit-for-tat tariff war.
Emerging Economies	**BRICS**	BRICS are heading towards a segregation in terms of economic growth, with China and India both recording economic growth rates above 6.5% YoY for the past five years, while Russia and Brazil are lagging substantially, posting GDP growth rates above 1.5% YoY and 1.0% in the past two years as they recover from FY 2015 recession. July's World Economic Outlook by the IMF projects the continuation of the aforementioned pattern for the next two years with China's economic growth expected to moderate to ca 6% YoY and Indian GDP continuing to expand above 7% YoY. The Russian GDP growth rate, on the other hand, is expected to land to 1.2% YoY in 2019 from 2.3% in 2018 and partially recover to 1.9% YoY in 2020. Similarly, Brazil's GDP growth rate is forecast to decelerate to 0.8% YoY in 2019 vs 1.1% in 2018 before rebounding to 2.4% YoY in 2020.
	CESEE	Having expanded by a stronger than expected pace in Q1-2019, the broader CESEE region is poised for a weaker growth reading in Q2-2019. Despite weaker growth, the broader region remains relatively resilient to the deteriorating global economic environment on solid domestic demand dynamics. Central banks in the region remain broadly on hold amid a dovish global backdrop. However there are cases in which central banks have already started their easing cycle, delivering either timid or bolder rate cuts.

Global Macro Themes & Implications

Theme	Implications
Boris Johnson victory raises fears of no-deal Brexit	As expected, Eurosceptic Boris Johnson was the winner of the Conservative leadership contest and consequently, the new PM of the UK. He received an overwhelming majority of 66% of about 160k Conservative Party members across the UK, comfortably beating his rival Jeremy Hunt. In his first speech as PM, Boris Johnson reiterated his commitment the UK to exit the EU on 31 October with or without a deal, stressing that delivering Brexit is one of his immediate priorities. Fueling market worries over a no-deal scenario, the new UK PM demanded that the Irish backstop be altogether removed from the Withdrawal Agreement rather than potentially modified, suggesting that it will be difficult for him to find common ground with the EU and strike a new Brexit deal by the end of October when the extension of Article 50 expires. Adding to the probability of a no-deal Brexit, the new cabinet is mostly comprised of hard Brexit backers, including Dominic Raab as new Foreign Secretary and Deputy Prime Minister. Admittedly, the UK parliament has repeatedly voted against a no-deal with substantial majorities (on 13 March 2019, 27 March 2019 & 18 July 2019). However, should the new PM pursue such a policy, it should not be taken for granted that the UK parliament could prevent a no-deal Brexit. A vote of no confidence in the government (simple majority is needed) or a proposal for new elections (two-thirds majority is needed) would require the support of Conservative MPs (the government has a thin working majority in the parliament). But such a vote which could lead to snap elections that potentially bring the opposition to power, may not be easy for Conservative MPs. UK MPs rose for summer recess on 25 July and is scheduled to return on 3 September for just two weeks of parliamentary work as they will rise again for the annual conferences of the major UK political parties that conclude in mid-October. That means, UK MPs will have a limited time until the crucial European Council meeting on 17-18 October, the last meeting before the Brexit deadline, to mobilize and stop Boris Johnson if he were to try to go for a no-deal Brexit.
Prolonged uncertainty on US-China trade dispute	At their meeting on the sidelines of the G20 meeting in late June in Osaka, US President Donald Trump and Chinese President Xi Jinping agreed on a truce in their trade war following mutual compromises. The US President agreed to refrain from imposing tariffs on the remaining c. $300bn worth of Chinese imports and to lift the ban on Chinese tech company Huawei from buying software and technology from US suppliers. However, it remains unclear whether Huawei will be removed from the so-called “entity list” or whether the lifting of restrictions will be temporary. On its part, China agreed to buy an unspecified large amount of US agricultural products. However, no deadline has been set for the completion of the talks. Senior US officials will reportedly travel to China in late July with the aim of resuming talks in the first face-to-face meeting since the G20 Summit. Admittedly, big differences remain in reaching a deal that would satisfy both sides, making it hard to see the resolution of the trade dispute any time soon. Indeed, speaking at a Cabinet meeting in mid-July, US President Donald Trump stressed that the US and China have a long way to go to seal a trade deal and warned that the US administration could impose tariffs on an additional $325bn worth of Chinese imports, if needed. Though uncertainty is high with regard to how trade talks will evolve, we still think that a trade deal will eventually be reached but not until the economic cost of the trade war to both economies has become clearer, putting pressure on both sides to make mutual concessions.

Macro Themes & Implications in CESEE

Theme	Implications
Demographic headwinds in the CESEE region	According to a recent study by the IMF, the populations of CESEE countries—with the exception of Turkey—are expected to decrease significantly over the next 30 years, driven by low or negative net birth rates and outward migration. These changes will have significant implications on the economic growth, the living standards and the fiscal sustainability in the region. First, the labour force in CESEE countries is projected to shrink over the next three decades. Second, aging populations will increase demand on health care and pension resources. Third, the aging of the labour force itself could cause aggregate productivity to deteriorate; for some CESEE countries, this effect could be significant. By taking into account jointly the above possibilities, without the adoption and implementation of mitigating policies, economic growth and convergence towards Western European living standards could slow considerably. The impact of reduced labour and productivity is self-explanatory but the feedback from fiscal pressures to growth itself is also important. Through a combination of increased in taxation and spending compression, fiscal pressures could displace public or private investment. There is no easy remedy against demographic pressures; policies to increase fertility rates are unlikely to inhibit the declining dynamics in the labour force. Consequently and given additional inherent limitations in boosting labour supply in many CESEE countries, more would have to be done to retain and use the existing workforce in a more beneficial manner. Inter alia, support for education, vocational training and automation may boost productivity. Further liberalization of immigration regimes, especially for skilled workers, could be considered as well.
The accession in the euro area for the six CEE countries turns out to be a two gear journey; Bulgaria & Croatia have the lead, Poland, the Czech Republic, Hungary and Romania have a bumpy road to cross	All EU Member States, except Denmark and the UK which is likely to exit the EU by 31 October, are required to adopt the euro and join the euro area. That said, there are six Central Eastern European (CEE) countries that joined the European Union in the 2004, 2007 and 2013 enlargements that currently use their local currencies but eventually will have to participate in the European Monetary Union with, however, no specific deadline. These countries are the Czech Republic, Hungary, Poland, Bulgaria and Croatia. To start with, in order for a country to be eligible to enter the euro area, according to the 1991 Maastricht Treaty it has to fulfill four nominal convergence criteria such as price and exchange rate stability, sound public finance and long term interest rates not exceeding 2.0%. Moreover, each country preparing towards entering the euro area must have in place a well-functioning and independent central bank, which upon accession will become a part of the Eurosystem. In terms of competence and criteria fulfillment, Bulgaria is the most prominent country. In detail, Bulgaria agreed with EU institutions on a roadmap to join the ERM-II Mechanism in July 2018, with the latter expected to reply within the next six months after the Asset Quality Review (AQR) in six systemic banks is completed. Croatia has progressed substantially and fulfills all criteria apart from that concerning the exchange rate stability, which, however, according to the Prime Minister Mr.Plenkovic's recent statements, is about to be pursued as Croatia intents to apply anytime soon to the ERM-II so as for the Croatian Kuna to be pegged to the Euro for at least two years. Regarding the other four countries, we discern a more blur picture; Poland wishes to postpone indefinitely the respective decision and all efforts entailed as the Euro adoption is diachronically receiving poor public support. Regarding the Czech Republic, Hungary and Romania, all three have failed to meet, inter alia, the price stability criteria as their inflation is more than 1.5 percentage points above the average rate of the three best performing Member States. Particularly, Romania, despite its expressed willingness to pursue accession in the euro area by 2024, will have to put extra effort in order to comply with the public finance requirements as the European Commission witnessed a 3.0% of GDP fiscal deficit in FY2018 with deteriorating outlook according to the budget execution for the first four months of 2019.

CESEE Markets Developments & Outlook

Country	CESEE Markets Developments & Outlook
Bulgaria	Bulgarian Eurobond yields posted significant drops across the curve ranging between 2 bps for the paper maturing in 2023 and 11 bps for the one maturing in 2028. Local yields followed suit dipping within a 3-10 bps range. The Ministry of Finance reopened the 20-year bond issuance of July 22nd raising EUR100mn. Furthermore, around mid-July, the Ministry of Finance announced the reopening of the 10.5-year issuance with an auction scheduled to take place on the 29th of July and an offer of an additional EUR100mn. The recent local bond auction activity is primarily driven by the recently negotiated purchase of new fighter jets from the United States that is expected to drive the government budget deficit to 2.2% of GDP, which is however still below the 3% threshold imposed by the EU's Maastricht Treaty.
Serbia	The decision of the National Bank of Serbia (NBS) to deliver the recent key policy rate (KPR) cut took place at the right time. Since April 2018, when the last cut took place, the NBS slashed the KPR by 25bps to 2.75% on this month's meeting held on July 11th. Inflation remains low and market participants expect that it will stay within the target range throughout the rest of 2019 (±1.5% of the targeted median at 3.0%). Moreover, major central banks around the world are expected to keep on having gloomy predictions regarding both growth and inflation, moving their rates, as such, into reducing territory, which could, in turn, further increase investors' appetite for RSD denominated papers. The recent bond rally resulted in appreciating pressures on the RSD. In order to prevent the appreciation, the NBS bought EUR735mn in June and EUR555mn in July so as to preserve a low volatility environment for the EUR/RSD pair and keep the local currency stable. Despite the sizeable interventions, the RSD did appreciate, but to a modest extent of only 0.2% against the Euro within the two-month period. Looking ahead, monetary policy would most probably remain accommodative and growth-supportive with further interventions on the FX market still considered an arsenal to tame dinar's strength, coupled with occasional swap auctions to boost dinar liquidity. That said, an additional cut within the next 3-5 months would not come as a surprise, as most of the global concerns i.e. US China trade war, Brexit and Iran's nuclear program will remain on the driver's seat regarding where markets' attention will be drawn. The government bond curve flattened in Q2 with the gap between the 2-year and 10-year yields narrowing by 78 bps to only 0.72%. The local government bond price rally and the overall curve shift to the lower side reflect perfectly the huge foreign currency inflows in the FX market recently. Along with the latter, the dinar appreciation momentum is expected to continue and, therefore, the NBS intervention cycle to rein it will become more pronounced.

Markets View

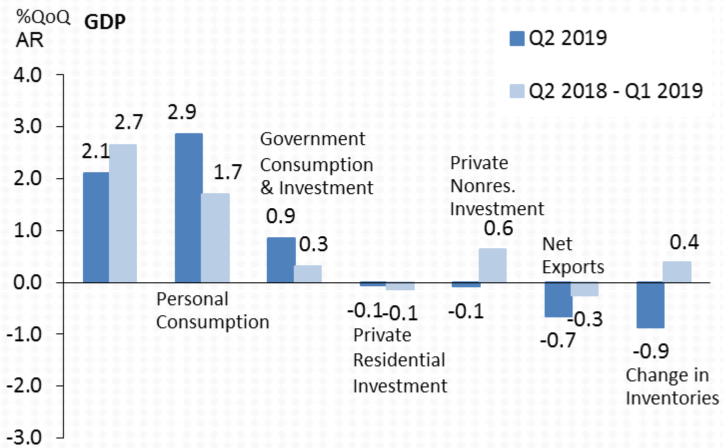
Asset Class	Outlook
Foreign Exchange	***EURUSD:*** As the door for rate cuts has been opened wide a reversal of June's rally has brought the EUR back to the lower bound of its recent range at 1.11 and so far it is holding on (the upcoming Fed meeting on 31/07 should be the catalyst). Apart from the ECB, the US-EU trade negotiations are keeping the EUR from appreciating while a potential US intervention in the USD is supporting it. A 25bps cut from the Fed should keep the 1.11 level intact. A break opens the way for significant downside. On the upside resistance comes at 1.1190 and 1.1250. ***GBPUSD:*** Another bad month for the pound as Boris Johnson takes a hardline Brexit stance in his first days in office raising the risk of both a no-deal Brexit and a general election. On its part, the EU repeated that the existing UK withdrawal agreement is the best and only deal possible. As things stand, it appears that the new government is on a collision course with the EU or the Parliament or both. The pair broke 1.24 and accelerated towards 1.21 that is the new major support. Despite this move we see little reason for GBPUSD to reverse its course at the moment. ***USDJPY:*** The BoJ kept its monetary policy unchanged while trimming the inflation forecast amid expectations that it will need to increase stimulus. JPY has kept its safe haven bid, despite the risk on market sentiment, amidst global uncertainties (trade wars, Brexit, geopolitics). The 109.00 level remains key resistance and should cap any USDJPY rallies. Support stands at 107.50.
Rates	***EU:*** QE firmly back on the agenda post the ECB meeting but we will need to wait until September for details and a deposit rate cut. Bunds remain close to their all-time yield lows, trading at -0.40% (reached a record low of -0.42% on 25/07). The market is pricing a deposit rate cut and the German curve is trading negative up to 20 years maturity with the curve close to its flattest level in years. The remaining core and peripheral EGBs have followed a similar trajectory to bunds while the overall yield convergence in Europe continues with Italy and Greece outperforming and Spain and Portugal underperforming. At current levels we are in both core and periphery bond markets, although we expect curves of the latter to flatten further. ***US:*** The Fed is expected to cut interest rates by at least 25bps on 31/07 and possibly end quantitative tightening in September. Yields have stabilized at the low end of this year's range and the curve steepening led by the 2-10s has retraced somewhat in July although we expect it to continue eventually. A dovish ECB and a stronger USD should force the Fed to act sooner rather than later. 10yr Treasuries at 2.05% are close to fair value but the US remains one of the highest yielding DM countries out there, which should justify the cuts despite benign economic numbers.
Emerging Markets credit	Emerging market hard currency debt had a positive month in July, with the J.P. Morgan EMBI Global Spread Index tightening by another 12bps after a stellar performance in June. Despite the weak growth in the EM space, capital flows have been increasing in the hunt for yield. This in combination with monetary easing in both developed and emerging market countries provides a near-term bullish outlook. Even negative stories like Turkey (was the outperformer this month at -37bps) and Mexico (-5bps) were not enough to put a break in this spread tightening cycle. The EMEA region posted the best performance with both IG and HY names performing. More specifically, apart from Turkey, Russia and Brazil tightened by 10 and 9bps respectively. Overall there is persistent demand for duration and spreads are expected to overshoot on the tight side unless the Fed disappoints after a dovish ECB hold on 25/07.
Corporate credit	UR IG spreads significantly outperformed USD spreads on the back of continued talk about CSPP2 and we now see little value in EUR over USD spreads, although USD funding costs remain an issue. Star performers of the month were EU peripheral financials as Tiering and potential inclusion in the CSPP2 provided a significant boost. The yield of the Bloomberg Euro Aggregate Corporate Index reached an all-time low of 0.36%, 18bps lower in one month, mostly driven by credit spreads. Cash remains wide to CDS and has further room to tighten despite a healthy primary market. In HY the number of idiosyncratic stories is increasing, in both EU and US, increasing dispersion, therefore we insist that name selection is important as not all boats will be lifted this time around. Duration extension is the name of the game and expect credit curves to flatten.

II. Advanced Economies

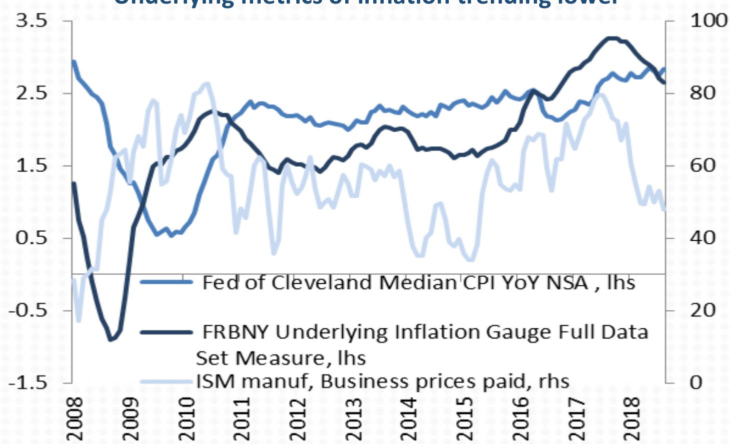
- USA
- Euro Area
    - Germany
    - France
    - Periphery (Italy, Spain, Cyprus)
- UK

USA: Robust personal consumption expenditures offset broad-based weakness in fixed investment

Contribution to real GDP growth



Underlying metrics of inflation trending lower



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

Latest Economic Developments

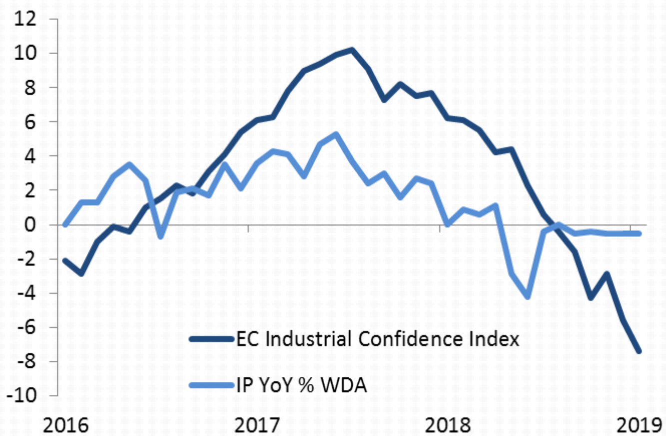
According to the BEA's advance estimate of Q2 growth, real GDP increased by 2.1%QoQ saar, down from 3.1% in Q1, surpassing market expectations for a 1.8% quarterly growth rate. Robust personal consumption (+4.3%QoQ saar from 1.1% in Q1) and government spending (+5.0%QoQ saar from 2.9% in Q1) offset a broad based weakness in fixed investment. Residential investment fell for a sixth quarter in a row (-1.5%QoQ from -1.0% in Q1), likely reflecting the effects of past monetary tightening, while business fixed investment growth softened to -0.6%QoQ (from +4.4% in Q1) on the back of weaker global growth dynamics and domestic manufacturing confidence. Meanwhile, subdued global demand weighed on net exports, which were a drag to growth more than reversing their positive Q1 contribution. Overall, we maintain our real GDP growth projection at 2.4% in 2019 down from 2.9% in 2018, with a strong consumer partially offsetting the negative growth effects of sluggish fixed investment and slower inventory accumulation. Trade related uncertainties could lead to potential investment disruptions for existing supply chains and, therefore, hold back business decisions.

Central Bank Watch

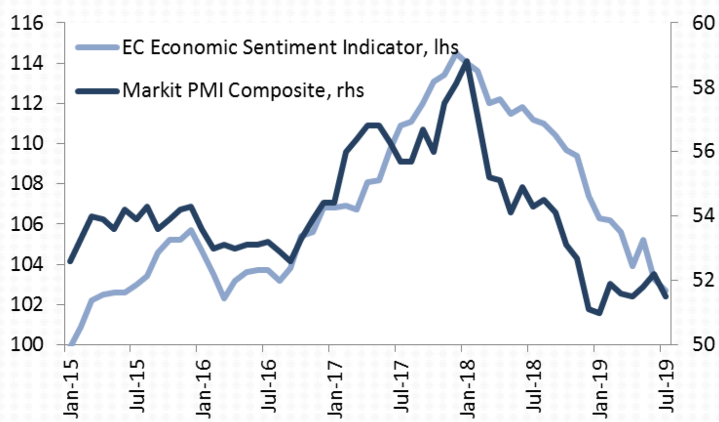
The dovish tone of Chair Jerome Powell's testimony before the House Financial Services Committee on July 10 and the minutes of the June FOMC meeting essentially confirmed the Fed's intention to ease monetary policy at its July 30-31 meeting. Furthermore, FOMC officials' expressed views on the appropriate path for monetary policy, right before the blackout period for Fed communication ahead of the July FOMC meeting, point to a consensus around a 25bp rate cut. That said, we expect the Fed to reduce the target range for the fed funds rate by 25bp to 2.00-2.25% at the July FOMC meeting, in conjunction with forward guidance that the Committee remains prepared to "act as appropriate" and proceed to further easing to avoid adverse movements in financial markets and sustain the expansion. No changes to the Fed's balance sheet policies are expected in July, as the Committee has already signaled that it will stop shrinking the size of its balance sheet in September.

Euro area: The upturn in industrial activity suggests upside risks to Q2 GDP, but downside risks take centre stage

IP has been holding up relatively well compared to business surveys



The industrial weakness seems to be spreading into services



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

Latest Economic Developments

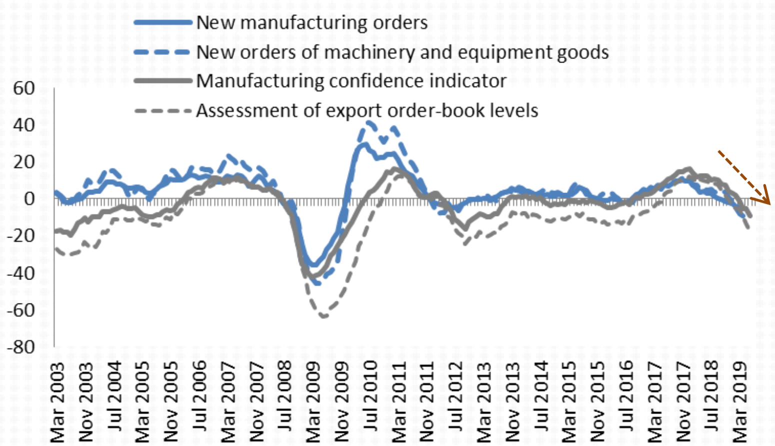
Industrial production expanded by a higher-than-expected 0.9%MoM in and April's print was revised slightly upwards (by +0.1pp to -0.4%MoM), with the biggest four euro area economies reporting monthly increases for the first time in the past nine months. The latest industrial figure in May gives a flat quarterly carry-over in Q2 vs 0.9%QoQ in Q1. Although latest indicators pertaining to Q2 2019 point to a generalized loss of momentum (weak retail sales, construction output fall), hard industrial production data have been holding up relatively well defying the rather bleak picture of business surveys. Looking into Q3 data, July composite PMI fell by 0.7pt to 51.5, registering the weakest monthly expansion of output for three months and pointing to a quarterly growth rate of just 0.1% in Q3 from an estimated 0.2% in Q2. The unfolding industrial weakness (PMI manufacturing fell further to a 6.5 year low of 46.4pt in July) seems to be spreading into services, with July PMI services decelerating to a 2-month low of 53.3. Overall, we maintain our 2019 real GDP growth projection at 1.1% from 1.9% in 2018, as subdued global demand, increased economic uncertainty and mounting trade war frictions weigh on the economic outlook.

Central Bank Watch

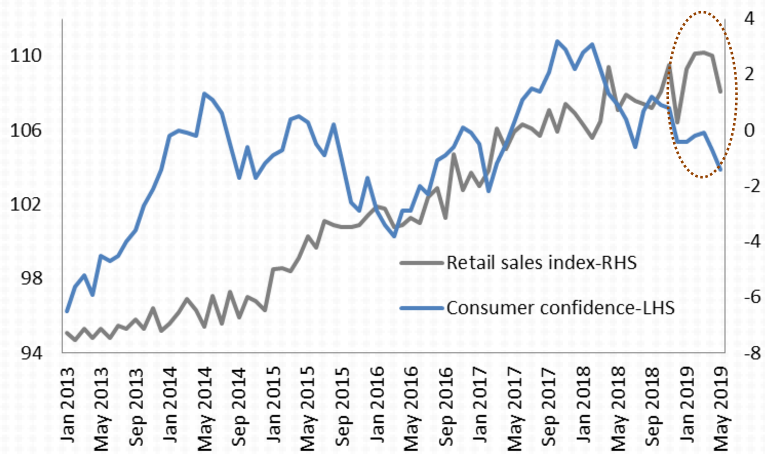
The ECB left its monetary policy unchanged at its July monetary policy meeting, preparing though the ground for further policy easing by changing its forward guidance, expecting the key interest rates to remain "at their present or lower levels at least through the first half of 2020." Underlining "the need for a highly accommodative stance of monetary policy for a prolonged period of time" as inflation remains persistently below the target, the Governing Council (GC) made it clear that it is "determined to act, in line with its commitment to symmetry in the inflation aim if the medium-term inflation outlook continues to fall short of its aim." Furthermore, the GC tasked the relevant Euro system Committees with examining a broad range of options, including the reinforcement of its forward guidance, mitigating measures such as the adoption of a tiered system as well as another round of asset purchases.

Germany: Short-term outlook looks gloomy, industrial sector stuck in prolonged downturn

No signs yet of a rebound in the manufacturing sector



Worries that the protracted manufacturing downturn might have started spilling into services



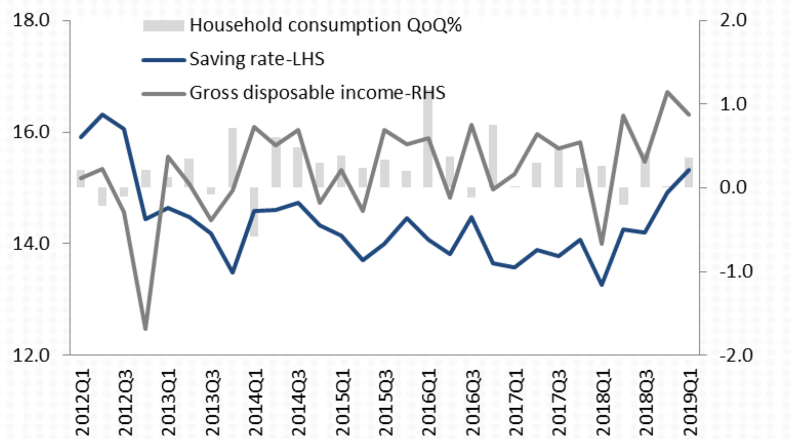
Source: Federal Statistical Office (Destatis), European Commission, Eurobank Research

Latest Economic Developments

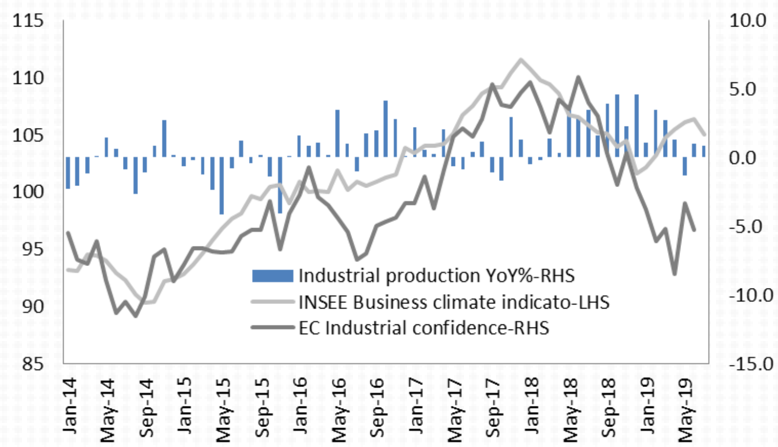
After Germany's real GDP growth rebounded strongly in Q1 2019 to 0.4%QoQ mainly due to a range of one-off factors (e.g. favorable weather conditions) following stagnation in Q4 2018 and a 0.2%QoQ contraction in Q3 2018, real activity and sentiment indicators point to risks of less dynamic economic growth or even stagnation in Q2 2019. Supported by a 0.9%MoM improvement in manufacturing, the highest in around a year, on the back of a seemingly temporary improvement in automotive output, industrial production gained 0.3%MoM in May. However, the modest May rise failed to offset April's 2.0%MoM drop, leaving Q2 carry-over firmly negative at -1.4%QoQ vs. +0.3%QoQ in Q1, mirroring lingering external headwinds, stemming primarily from the US/China trade dispute and uncertainty around the UK's exit from the EU. Adding to the view for persistent industrial weakness, factory orders contracted sharply in May by 2.2%MoM, the highest since June 2018, after tentative signs of improvement in May and April (+0.4%MoM & +0.7%MoM, respectively), mainly due to a sharp fall in foreign demand for industrial goods. Domestic business surveys also point to risks of prolonged manufacturing weakness. July's PMI manufacturing remained stuck into contractionary territory for the seventh month in a row (7-year low of 43.1), the IFO index dropped over the same month for a fourth consecutive month to the lowest level since April 2013 (95.7) and July's ZEW economic sentiment declined further (-24.5), well below its long-term average of 21.8pts. Amid fears over a prolonged industrial weakness as US and China appear to have a long way to go to seal a trade deal, risks are looming that the negative sentiment in the manufacturing sector spills into the so-far resilient services sector. That said, consumer sentiment, employment and retail sales, have all started to show tentative signs of a turnaround in Q2, suggesting that domestic demand growth might have passed its peak. Overall, expectations are for a modest contraction of 0.1%QoQ in Q2 2019 while for the full year, real GDP growth is anticipated to ease to 0.5%, assuming that the UK will avoid a no-deal Brexit and US/China trade dispute does not escalate further.

France: Private consumption likely to retain positive momentum in Q2, providing a shelter to the economy from external headwinds

Household consumption expected to remain the main growth driver in Q2



Gobal industrial slowdown spills into France's manufacturing activity



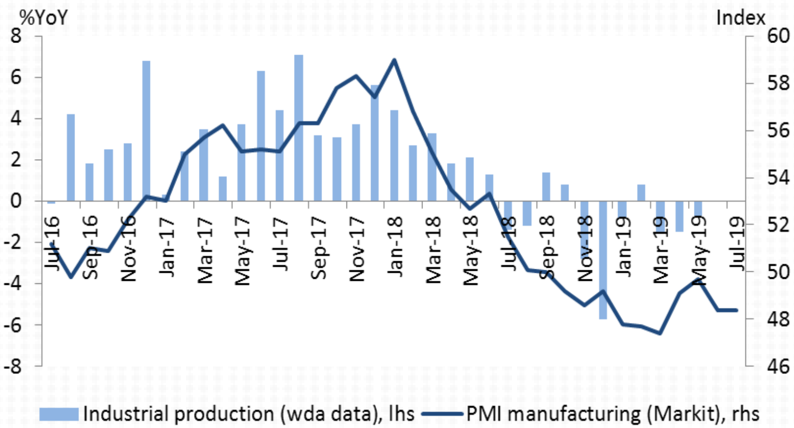
Source: INSEE, Eurobank Research

Latest Economic/Political Developments

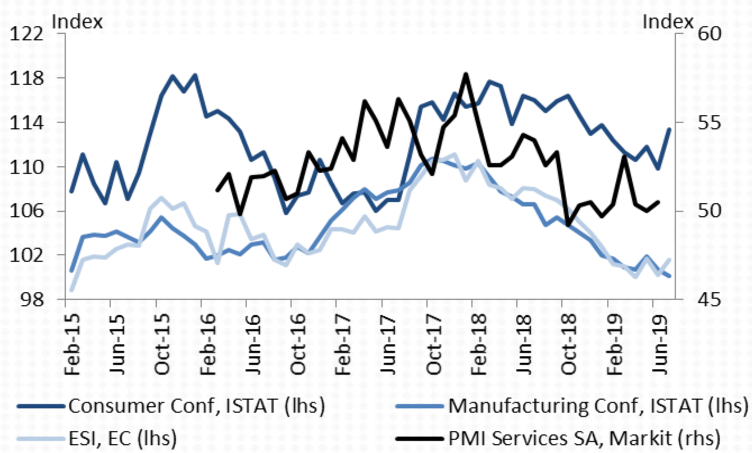
Hard data and sentiment indicators for Q2 suggest that the French economy continues to expand at a hefty pace, after real GDP growth rebounded 0.4%QoQ in Q1 following stagnation in Q4 2018. Household consumption is expected to be the main growth driver, remaining robust for the second quarter in a row, after rising by 0.4%QoQ in Q1, well above a q-o-q average of 0.1% in 2018. Support for household consumption mainly comes from solid disposable income which grew by 0.9%QoQ in Q1 compared to last year's 0.4%QoQ q-o-q average, thanks to lower inflation mainly on the back of lower oil prices (HICP H1-2019 average at 1.4% vs. 1.8% in the same period of last year), President Emmanuel Macron's fiscal measures (amounting to c. € 17bn or 0.7% of GDP) to quell the "yellow vest" protests and a sustained improvement in labor market conditions (ILO unemployment rate at a ten-year low of 8.7% in Q1). As a result, the savings rate continued to rise in Q1 for the second quarter in a row coming in at a six-year high of 15.3% of disposable income. Against this background, INSEE consumer confidence kept improving in June for the seventh consecutive month rising to 101, above its 100 long-term average for the first time since April 2018. On a negative tone, global industrial slowdown spills into France's manufacturing activity with the respective PMI figure falling in July to no-growth territory for the first time in the last 2½ years (50.0). The INSEE business survey also disappointed in July showing a deterioration in the climate indicator for the first time in the last four months. May's IP surprised to the upside revealing a 2.1%MoM gain, the highest since late 2016. However, in an environment of protracted trade uncertainty, risks are skewed for renewed IP weakness in the coming months. With growth risks remaining skewed to the downside primarily stemming from global trade woes, household consumption is expected to partially offset slower growth in business investment, providing a shelter to the economy from external headwinds. GDP growth is expected to rise 0.3/0.4%QoQ by end-2019 and 1.3%YoY for the year, barring another episode of social unrest and/or further deterioration on the external sector that could weigh on private consumption.

Italy: Weak external environment weighs on the growth outlook, on top of subdued domestic demand

IP recovered in May, in contrast to manufacturing confidence



Business and consumer surveys point to sluggish economic growth



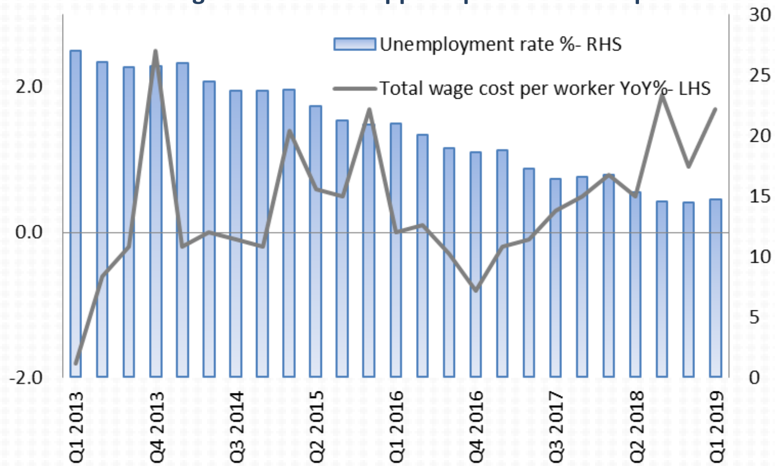
Source: ISTAT, EC, Markit, Bloomberg, Eurobank Research

Latest Economic & Political Developments

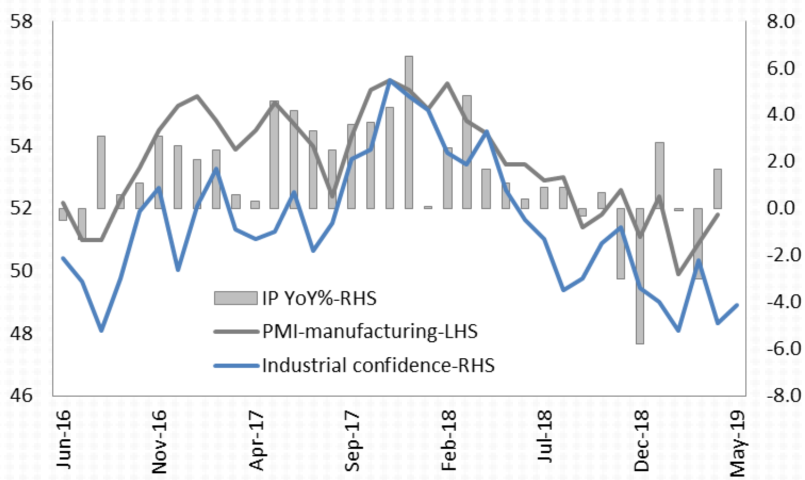
Industrial production (excluding construction) recovered in May, expanding by a stronger-than-expected 0.9%MoM after a 0.8%MoM decline in April, with broad-based strength in manufacturing activity leading the rebound. Nevertheless, sentiment in the manufacturing sector decelerated further in June, as firms recorded an eleventh consecutive decline in both output and new orders. The IHS Markit PMI manufacturing deteriorated to its lowest level since March (to 48.4 from 49.7 in May), in contrast to the services sector, where the respective IHS Markit PMI index returned to growth in June (to 50.5 from 50.0 in May) signaling a slight increase. With the most recent data consistent with a slight contraction in annual manufacturing production growth and continuing weakness of external demand, we have cut our 2019 GDP forecast by -0.1pp to 0.1%, down from 0.9% in 2018, with increased economic and political uncertainty offsetting the positive effect of expansionary fiscal measures on economic activity. Adding to the above, investors' concerns remain about whether the European Commission (EC) will trigger an Excessive Deficit Procedure (EDF) against Italy in violation of debt reduction benchmarks later this year. The European Commission announced at the beginning of the month that it will delay its decision on Italy's debt because of the summit of EU leaders, highlighting that no date has been set for when the Commission will meet on this issue. The Italian government's latest fiscal plans currently envisage a deficit target of 2.1% of GDP in 2020, down from an estimated deficit of 2.4% for 2019, embedding a planned VAT increase (€23bn or ~1.3% of GDP) as a safeguard clause agreed with the EC in December 2018. It is doubtful whether the Italian government will eventually implement this fiscal tightening, so negotiations between Italy and the EC on the 2020 budget in the autumn could prove to be too big a challenge for the Italian government. This could result in persistent large increases in sovereign bond spreads, increasing funding costs for the banking sector and, therefore, weighing on bank lending and investment.

Spain: Q2 GDP expected to ease slightly but still at healthy levels

Strong labor market supports private consumption



Strong April and May IP prints bode well for Q2 GDP



Source: INE, Eurobank Research

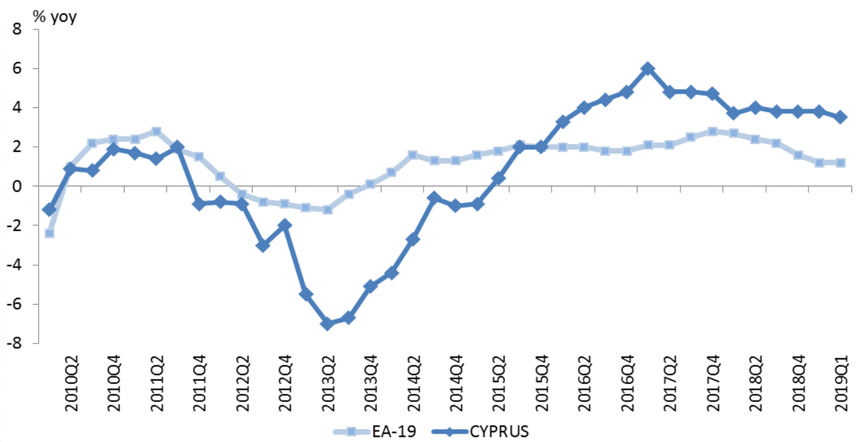
Latest Economic/Political Developments

Activity indicators and surveys pertaining to Q2 suggest that Spain continues to expand at solid rates, leading economic growth in the euro area. After rising by 0.7%QoQ in Q1 2019, the fastest pace since Q4 2017 mainly supported by a rebound in investment, Q2 GDP is anticipated to decelerate modestly to around 0.6%QoQ remaining though at growth levels higher than those projected for the majority of the other large euro area economies. Consumer sentiment improved in June for the second consecutive month, while retail sales retained a firm tone in May (rising by a two-year peak of 2.4%YoY following a 1.3%YoY gain in April), as a pick-up in wages - partly as a result of a 22% rise in the minimum wage – and moderate inflation (mainly due to lower oil prices, favourable financial conditions and an ongoing improvement in labor market conditions with the May unemployment rate at a new multi-year low of 13.6%), support private consumption. Moreover, the strong April and May prints for industrial production (+1.8%YoY and 1.4%YoY respectively), bode well for Q2 GDP. However, the composite PMI fell to a 5 ½ year low of 52.1 in June from 50.1 in May, weighed down by a broadly stagnant manufacturing sector, which recorded the sharpest contraction since April 2013 (47.9) as both output and new orders declined sharply. Meanwhile, imports remain relatively strong so far this year recording an average growth rate for the period January-May higher than that of exports. For the whole year 2019, real GDP is forecast to expand 2.3% from 2.6% in 2018, still comfortably above Spain's estimated potential growth rate of 1.5%.

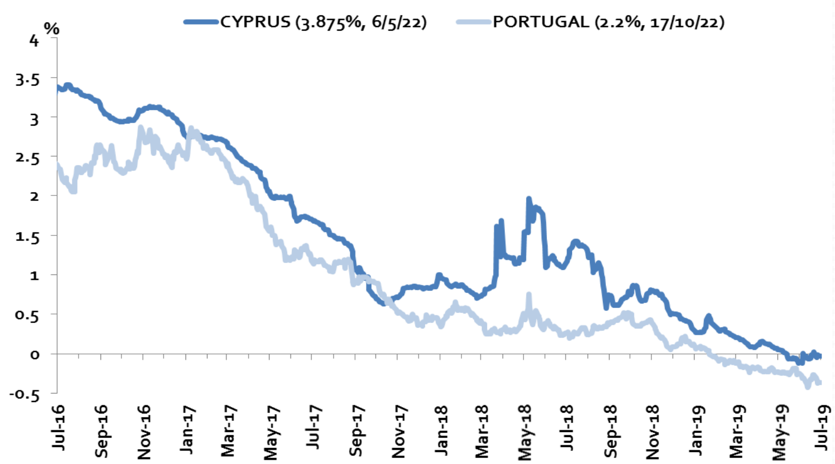
On the fiscal policy front, the European Commission projects a structural fiscal expansion of 0.2%-of-GDP in 2019 against a required tightening of 0.65%-of-GDP in the structural balance, arguing that, following the rejection of the 2019 Budget, some planned tax increases and new taxes will not be implemented while a number of social spending measures have been approved by decree. In case of a sharp deviation from the appropriate adjustment path towards its MTO, Spain could be penalized next spring when 2019 outturn fiscal data is available.

Cyprus: Amendments to the foreclosures and insolvency frameworks endanger the NPEs cleaning up process

Cyprus turn-around growth story has been impressive so far



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



Source: Eurobank Research, National Authorities, Bloomberg

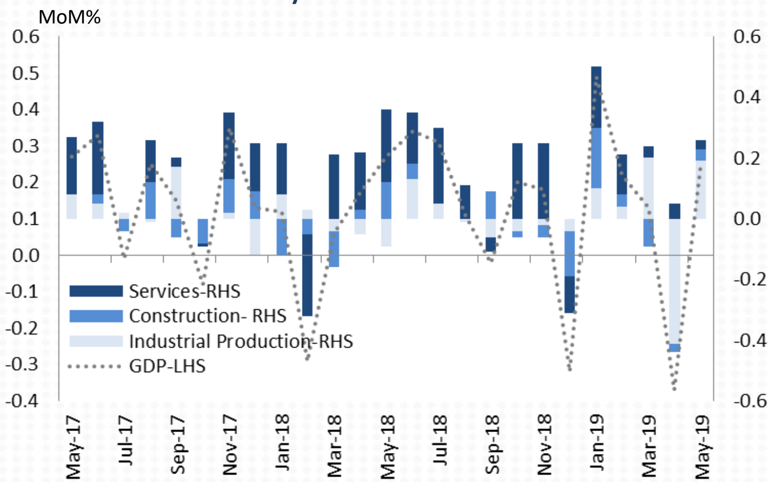
Latest Political & Economic Developments

In mid July the opposition parties' individual initiatives culminated in the parliament approving a new legislation amending the previously reformed insolvency and foreclosure frameworks. The amendments to the existing legislation partially or completely reverse some of the provisions of the reformed frameworks. First of all, the new law prolongs the process of the foreclosure so that according to their representatives, banks will not be able to foreclose the collateral property before 14-16 months after the first delay in debt servicing is noticed. Furthermore, distressed borrowers have now gained the right to file an appeal to the court system against the banks for failing to exhaust efforts to restructure their loans. Secondly, the new law foresees a freeze in foreclosures eligible to join the ESTIA government plan until September 1st. Advocates of the legislation suggest that this is necessary to ensure that no primary residences will be foreclosed until it is clear who is eligible for the ESTIA scheme. However, in a first step to veto the new legislation, the President of the Republic, Mr. Nicos Anastasiades returned the amended bills to the parliament. The Presidential veto came in the aftermath of Moody's warning that the amendments to the legal framework governing foreclosures were "credit negative", were likely to hamper banks' efforts to reduce problem loans.

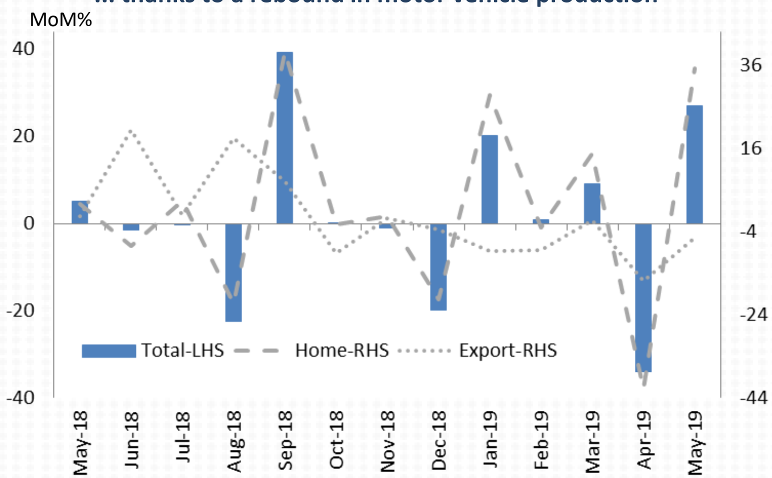
Overall, the amendments have been heavily criticized as not supportive of the banking sector, rendering creditors at a disadvantaged position in pursuing the foreclosure of the collateral properties in an efficient manner. If they do remain in place it could result in the backtracking of the NPEs cleaning up process, an increase of the borrowing costs and most probably an increase in both the provisioning needs and the capital requirements of the Cypriot banks especially ahead of next year's stress test. Last but not least, the amendments constitute damage to the credibility and prestige of the Republic because of the change of rules for the investors who have already acquired NPEs portfolios, which will likely be sold at lower prices than estimated in the future.

UK: May GDP bounced back but underlying growth momentum remains soft

May GDP bounces back...



... thanks to a rebound in motor vehicle production



Source: ONS, Eurobank Research

Latest Economic Developments

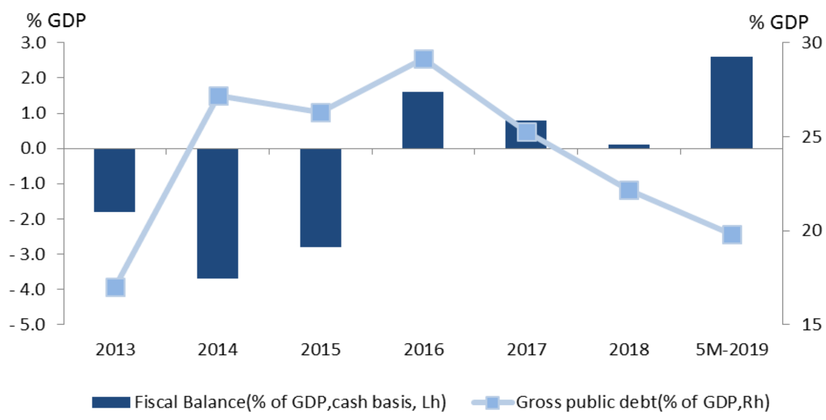
UK May GDP growth bounced back 0.3%MoM, partially reversing April's 0.4%MoM decline. The main growth driver was manufacturing and, particularly, the transport sector on the back of a hefty 27%MoM rebound in motor vehicle production, which added c. 0.2% to monthly GDP growth, following the Brexit-related factory shutdowns in April. However, the annual pace of growth in motor vehicle production remained in contractionary territory in May, while recent business surveys suggest that the monthly rebound is likely to prove temporary as a number of supply chains have started to be diverting away from the UK. Adding to market concerns about Q2 GDP, the breakdown of the May GDP report showed weakness in the majority of the remaining subsectors of manufacturing. Furthermore, activity in the services sector remained subdued for the fourth consecutive month following a 0.2%MoM gain in January while the construction sector was almost flat after contracting in both March and April. To sum up, the lack of a broad-based strengthening in May activity data combined with weakness in a range of recent business surveys suggest that, in spite of the May GDP rebound, the UK economy looks poised for a slowdown in Q2 after strong growth in Q1, weighed down by the fading boost from stockpiling activities associated with no-deal Brexit fears. Manufacturing PMI remained into contraction territory in June for the second month in a row at 48.0 while the respective index for the services sector gave back the May's rebound coming in at 50.2, slightly above the boom-or-bust level of 50.0. According to the BoE's latest projection, Q2 GDP growth is seen at 0.0% from 0.2%QoQ earlier, pointing to a likely downgrade of the central bank's 1.5% annual growth forecast for 2019 at the upcoming August Inflation Report. The expected deterioration in domestic – and global– economic growth outlook, the victory of Eurosceptic Boris Johnson in the Conservative leadership contest and subdued inflation pressures, support the view for unchanged BoE interest rates throughout this year, with the next rate move more likely to be downwards rather than upwards, especially in the event of a no-deal Brexit scenario.

III. Selected CESEE economies

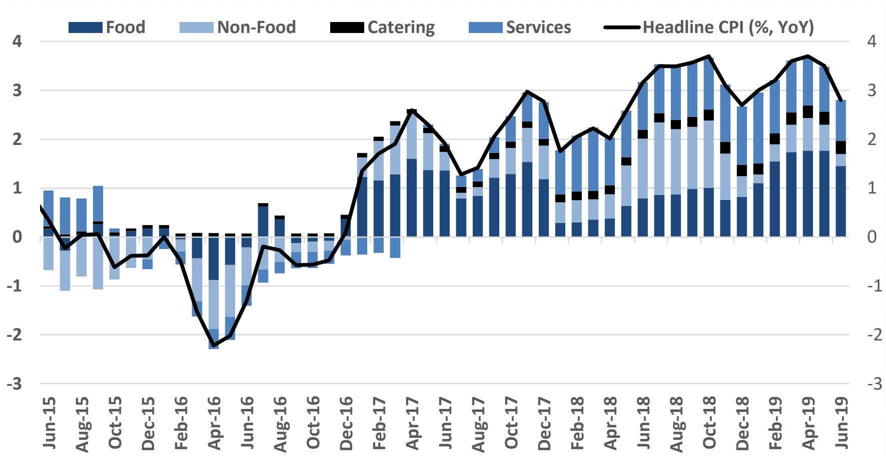
- Bulgaria
- Serbia
- Turkey

Bulgaria: Fiscal target revised on military equipment purchase

Bulgaria's fiscal position is sound



Inflation trending lower in recent months on lower services' prices



Source: Eurobank Research, National Authorities

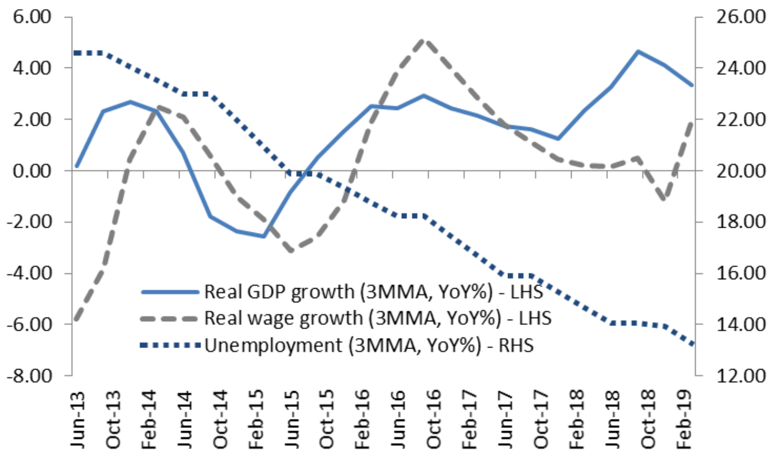
Latest Political & Economic Developments

The general government deficit target of 2019 has been revised from 0.5% to 2.0% of GDP to reflect the purchase of military equipment. The parliament endorsed the government decision to buy eight F-16 jet fighters worth BGN 2.2bn from the US, paid in one instalment. The one-off cost for the budget is unlikely to be seen as a slippage or deviation from sound fiscal policies. Bulgaria has been running a general government budget surplus in ESA2010 terms in the last three years, so that its public debt is the 3rd lowest in EU-28. The general government surplus increased from 0.2% of GDP in 2016 to 2.0% in 2018, while the public debt to GDP ratio came down from 29.2% to 22.6% in the same period. Yet, President Rumen has vetoed the parliamentary decision pointing out that strong controversy between MPs during the discussion showed that there wasn't a wide public consensus and support in place, while the bill adoption procedure was fast, lacking transparency on key points of the F-16 delivery contract. A simple majority in the 120 seat parliament is required to override the veto, which is very likely to be achieved given the stance of both government and opposition parties.

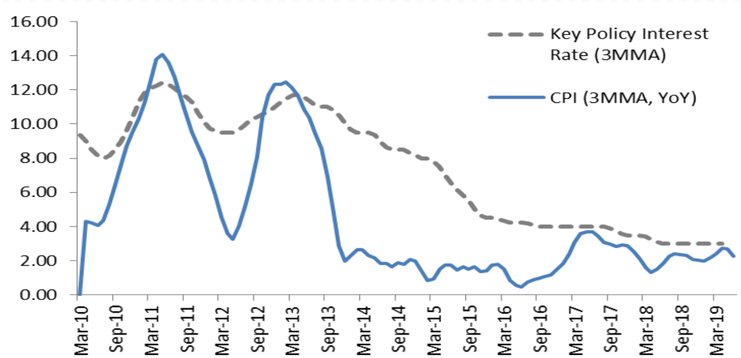
In our view, solid growth momentum is expected to continue in 2019 – our forecast stands at 3.5% unrevised since last year – driven by sound domestic demand dynamics. Private consumption will be in the driver's seat, receiving support from a tighter labor market, relatively low energy prices, convergence of wages towards EU average, a vibrant manufacturing sector despite the increasing world trade tensions and increased tourism flows. Investment, especially public investment, will receive a boost from improved EU funds' absorption, which will hopefully become visible in H2-2019. With the end of the 2014-2020 programming period approaching, the government will need to step up spending for a number of mature projects. Moreover, domestic credit conditions have turned more growth supportive. Credit activity expanded by a still strong rate of 6.8% YoY in June down from 7.8% in March not very far from 8.7% YoY in February – the highest rate since June 2009.

Serbia: Monetary easing amid subdued inflationary pressures

Modest GDP growth and firm labor market…



…amid subdued inflationary pressures and interest rate easing



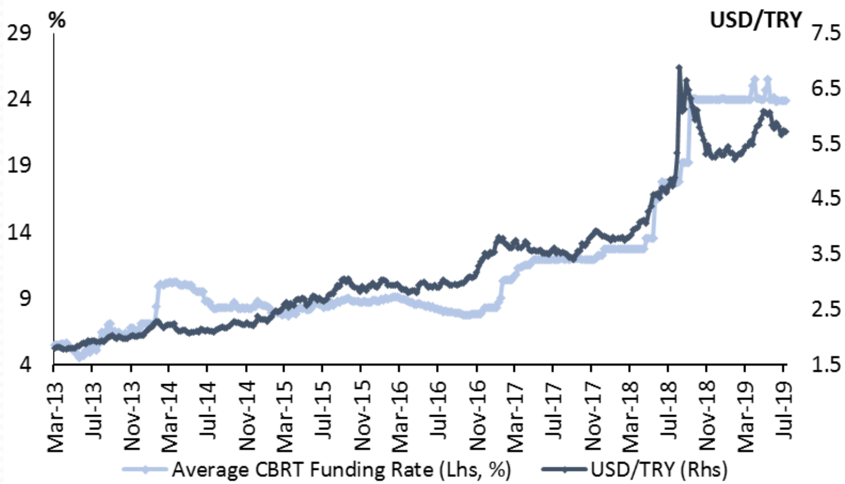
Source: Bloomberg, Eurobank Research

Latest Economic Developments

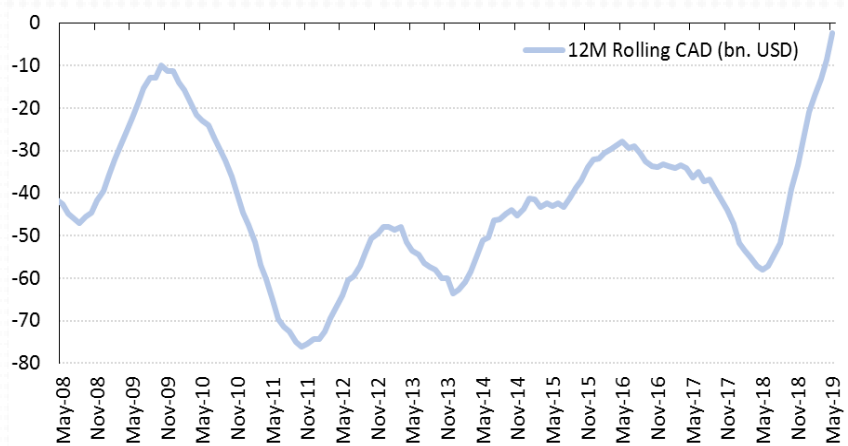
In late July, the IMF published the staff report for the 2019 article IV consultation along with the second review under the Policy Coordination Instrument (PCI). According to the review, the near-term outlook remains positive. GDP Growth in 2019 is projected at 3.5%, with a pick-up in growth expected during the second half of 2019 due to strong foreign direct investment (FDI), continued public investment, and assumed recovery in trading partner countries. The IMF welcomed Serbia's strong macroeconomic performance supported by the PCI which started a year ago and will be concluded in July 2021 while it emphasized that ongoing commitment to structural reforms is key to sustaining macroeconomic and financial stability as well as advancing the EU convergence agenda. A few days earlier, the NBS Executive Board decided to cut the policy rate by 25bps to 2.75%. The rate easing was somewhat anticipated by market participants but not earlier than August amid appreciating pressures on the dinar lately and subdued inflationary pressures. The NBS Board stated that the decision was broadly based on efforts to support economic growth. To that end, while GDP growth decelerated to 2.5% YoY in Q1 2019 from 3.4% YoY in Q4 2018, the NBS kept the GDP growth forecast at 3.5% for FY2019. The decision was backed by the inflation trajectory as in May the print slid to 2.2% YoY from a two-year high of 3.1% YoY in April. Looking at the big picture, price levels are firmly under control for the sixth consecutive year and the NBS Executive Board expects that pressures will remain subdued for the rest of 2019 and throughout 2020, projecting year end inflation reading to fluctuate within the target band and most probably in the lower bound of the target band (2%, ±1.5%). The decision was also underpinned by the low and stable core inflation (1.6% YoY in May) along with low inflation expectations by the financial sector and corporate firms. Concluding, the NBS took also into account the recent dovish stance by the Fed and the ECB, amid slower economic growth and lower-than-expected inflation at a global level, which is expected to have a positive impact on the conditions in the international financial market and on capital flows to emerging markets.

Turkey: The inflation outlook improvement allowed central bank to deliver the first rate cut in late July

Turkish Lira rebounding from multi-month lows in May



Macroeconomic imbalances have been unwinding rapidly in 2018-19



Latest Political & Economic Developments

Headline inflation declined to 15.7% YoY in June - down to a twelve month low-vs. 18.7% YoY in May compared to 19.5% YoY in April down from 19.7% YoY in March coming again below analysts' consensus (Actual: +0.03% MoM vs Bloomberg:+0.20% MoM). Weak domestic demand dynamics, the appreciation trend of the lira since late May, favorable base effects in the food prices segment have supported the ongoing disinflation process in H2-2018. Among the movers of the month, food prices have started normalizing while the decline in energy prices allowed for goods inflation to decline. The food & non-alcoholic beverages component declined further down to -1.7% MoM/+19.2% YoY in June compared to -1.2% MoM/+28.4% YoY in May vs. +1.4% MoM/+31.9% YoY in April. Headline inflation has retreated from its historic highs in recent months ending at 20.3% YoY in December down from 21.6% YoY in November and 25.2% YoY in October2018. Despite lira renewed depreciation pressures in early May, core inflation (which excludes food, alcohol, tobacco, energy and gold prices) eased further to 14.9% in June at the lowest level since June2018, down from 15.9% YoY in May, compared to 16.3% YoY in April vs. 17.5% YoY in March down from 19.5% YoY in December.

The inflation outlook improvement allowed the Central Bank of Turkey (CBRT) to deliver the first rate cut in late July. CBRT had remained put on rates in mid-June, yet its communique was widely seen as looking for a window of opportunity in the next months to deliver the first rate cut, provided that global & domestic economic conditions are conducive to it. Consequently, CBRT under the leadership of the new governor Mr. Murat Uysal slashed the key policy rate (KPR)-the 1week repo as of May2018- by 425bps from 24.00% to 19.75%. The front-loaded move overshot the market consensus of 250bps, according to the Bloomberg and Reuters polls. The CBRT cited the dovish stance of the major central banks, the ongoing external rebalancing and the recent inflation trajectory improvement as the key drivers behind its decision.

Source: Eurobank Research, National Authorities, Bloomberg

IV. Special Focus:

A barrage of monetary policy easing

A barrage of monetary policy easing

Eurobank

Major central banks are set to embark on a monetary policy easing cycle in the coming months, with rate cuts likely in the US, Europe and several EM economies

Fed: Three rate cuts expected in H2 2019 (July, September and December)

The dovish tone of Chair Jerome Powell's testimony before the House Financial Services Committee on July 10 and the minutes of the June FOMC meeting essentially confirmed the Fed's intention to ease monetary policy at its July 30-31 meeting. According to Mr. Powell, since the June FOMC meeting, "based on incoming data and other developments, it appears that uncertainties around trade tension and concerns about the strength of the global economy continue to weigh on the US economic outlook, while inflation pressures remain muted." Against this background, he highlighted that "somewhat" more accommodative policy is appropriate at this point. Meanwhile, Fed participants' concerns about soft inflation and downside risks to growth (uncertainty about trade and the global outlook) at the minutes from the June FOMC meeting bolstered the case for rate cuts in July. Furthermore, FOMC officials' views on the appropriate path for monetary policy, right before the blackout period for Fed communication ahead of the July FOMC meeting, point to a consensus around a 25bp rate cut. St Louis Fed President Bullard, who is considered the most dovish FOMC member, repeated his call for a 25bp rate cut, Dallas Fed President Kaplan expressed openness to a cut, while Chicago Fed President Evans downplayed the need for more aggressive imminent cuts as key macroeconomic data have continued to surprise positively. Indeed, although fixed investment remains pressured and the industrial sector has lost steam, personal consumption growth has rebounded significantly so far in 2019, with retail sales totally offsetting the Q4 2018 weakness, while the most recent June data flow (including employment and inflation) has surprised to the upside. That said, we expect the Fed to reduce the target range for the fed funds rate by 25bp to 2.00-2.25% at the July FOMC meeting, accompanied by forward guidance that the Committee remains prepared to "act as appropriate" and proceed to further easing to avoid adverse movements in financial markets and sustain the expansion. No changes to the Fed's balance sheet policies are expected in July, as the Committee has already signaled that it will stop shrinking the size of its balance sheet in September. In our view, the Fed will likely cut by 25bp twice more during the autumn (September and December), in line with current Fed pricing.

ECB: First deposit rate likely in September; Deposit tiering and QE relaunch are also possible

Regarding ECB, the Governing Council (GC) left its monetary policy unchanged at its July monetary policy meeting, preparing though the ground for further policy easing by changing its forward guidance to expecting the key interest rates to remain "at their present or lower levels at least through the first half of 2020." Underlining "the need for a highly accommodative stance of monetary policy for a prolonged period of time" as inflation remains persistently below its inflation target and a rebound (in growth) becomes less likely", the central bank made it clear that it is "determined to act, in line with its commitment to symmetry in the inflation aim if the medium-term inflation outlook continues to fall short of its aim." With a view to ensuring that inflation moves towards the target, the GC tasked the relevant Euro system Committees with examining a broad range of options, including the reinforcement of its forward guidance on policy rates, mitigating measures such as the adoption of a tiered system for reserve remuneration as well as options for the size and the composition of a potential new round of net asset purchases. In our view, the dovish policy decision statement set the scene for a 10bp deposit rate cut at the September ECB meeting, likely coupled with a new asset purchases program, an extended forward guidance on policy rates and/or a tiered deposit rate system.

A barrage of monetary policy easing

Major central banks are set to embark on a monetary policy easing cycle in the coming months, with rate cuts likely in the US, Europe and several EM economies

BoJ: Strengthening its forward guidance, further easing put on hold

As widely anticipated, at its 29-30 July monetary policy meeting (MPM) the BoJ maintained its current policy stance unchanged with a 7-2 majority, keeping the current policy framework comprised of quantitative and qualitative monetary easing (QQE) and yield curve control (YCC). Nevertheless, the accompanying statement added the following new sentence strengthening the central bank's commitment to achieving its price stability: "In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum towards achieving the price stability target will be lost". With this change, the BoJ kept pace with the ECB, which last week strengthened its forward guidance on policy rates through a "commitment to symmetry in the inflation aim". Meanwhile, in its quarterly Outlook Report, the BoJ's projections for GDP growth and core inflation were revised downwards for 2019 by one-tenth to +0.7% and +1.0%, respectively, while there is a noticeably higher downside risk to the growth and inflation outlook. The majority of policy board members see downside risk in their real GDP forecasts (seven out of nine for FY2019 and FY2020), while a similar trend stands for core CPI inflation forecasts as well. Looking ahead, the decision at the MPM on 18-19 September will likely be influenced to a greater degree by the movements of other major central banks (rate cuts by the Fed and the ECB) and any related financial market volatility that could potentially cause the yen to appreciate.

Emerging Markets are leading the way in the global race for monetary policy easing

Having been confronted with a gloomier world economic environment and renewed tensions of every kind (trade, geopolitical etc.), emerging markets are among the first in need of stimulus through monetary policy easing. But it wasn't until the major central banks stance became more dovish that EM's central banks halted their tightening cycle or even started reversing their earlier hikes. On top, the declining trend of world energy prices since late April coupled with the stabilization of EM currencies mirroring the stabilization of interest rates differentials and liquidity flows between advanced and emerging markets put a break on imported inflation, thus allowing for inflationary pressures to subside further. From a monetary policy point of view, the stabilization of inflation conditions was instrumental in creating more room for EM central banks to embark or even accelerate their easing cycle. **India**: The Bank of India was among the pioneers in monetary policy easing in 1H-2019, delivering so far three 25bps rate cuts including the last one in early June, bringing the benchmark repo rate at 5.75%, to its lowest level since late 2010. More importantly, it has signaled that more easing maybe in the pipeline. **Russia**: The CBR'S policy rate cut by 25bps to 7.25% in late July was the second in a row and fully reversed the policy tightening of 2H18. Moreover, CBR's messaging remained dovish. **Brazil**: Lingering uncertainty with the social security reform and market frustration over delays in the reform agenda haven't allowed the central bank so far to continue its easing cycle which began in October 2016. Nevertheless, the SELIC rate stands at 6.5% at a record low and the central bank is expected to deliver another 150bps by October to bring it at 5.0%. **China**: Policy easing has shifted to the use of unconventional tools such as liquidity injections through the medium-term lending facility (MLF) and targeted medium-term lending facility (TMLF) and the use of minimum reserve requirements (MRRs). Although there has been no use of MRRs since last February when the central bank (PPoC) cut MRRs to 13.5%, the market anticipates further MRR cuts by the end of the year for the PPoC to support the economy in case GDP growth shows signs of further weakness. **CESEE**: With the exception of Turkey, which is an idiosyncratic case, most central banks in the broader CESEE have remained on hold for an extended period of time helped by the prevailing benign inflationary pressures. Having been confronted with a currency crisis & full blown recession, which pushed inflation to a multi-year high at 25% in late October 2018, the CBRT slashed rates by 425bps to 19.75% in late July.

V. Eurobank Forecasts

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI (YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f
World	3.6	3.2	3.4	3.6	3.2	3.1									
Advanced Economies															
USA	2.9	2.4	2.0	2.5	1.9	2.1	3.9	3.7	3.6	-2.4	-2.5	-2.9	-3.8	-4.5	-4.5
Eurozone	1.9	1.1	1.3	1.8	1.3	1.4	8.2	7.7	7.5	3.0	2.9	2.8	-0.6	-1.0	-1.0
Germany	1.4	0.5	1.4	1.9	1.4	1.3	3.4	3.2	3.2	7.3	7.0	6.5	1.7	1.0	0.6
France	1.7	1.3	1.4	2.1	1.3	1.4	9.1	8.7	8.5	-0.7	-0.5	-0.5	-2.5	-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	1.7	2.0	0.8	0.9	0.9	19.3	17.7	16.5	-2.9	-2.6	-2.4	1.1	0.5	-0.1
Italy	0.9	0.1	0.6	1.3	0.9	1.0	10.6	10.5	10.5	2.6	2.9	2.6	-2.1	-2.7	-3.0
Portugal	2.1	1.7	1.7	1.2	0.9	1.5	7.0	6.4	6.2	-0.6	-0.7	-0.8	-0.5	-0.4	-0.3
Spain	2.6	2.3	1.9	1.7	0.9	1.2	15.3	13.9	12.8	0.9	0.9	0.8	-2.5	-2.3	-2.0
UK	1.4	1.2	1.3	2.5	0.8	2.0	4.1	3.9	4	-3.9	-4.3	-3.8	-1.4	-1.5	-1.5
Japan	0.8	0.8	0.5	1.0	0.8	1.1	2.4	2.4	2.4	3.5	3.5	3.5	-3.2	-2.8	-2.1
Emerging Economies															
BRICs															
Brazil	1.1	1.0	2.1	3.7	3.9	4.0	12.3	11.8	10.8	-0.8	-1.0	-1.7	-7.3	-6.5	-6.0
Russia	2.3	1.2	1.7	2.9	4.9	4.0	4.8	4.8	4.8	7.0	5.7	4.2	2.6	2.0	1.5
India	7.2	7.0	7.2	4.0	3.7	3.8		*NA*		-2.5	-2.2	-2.2	-3.6	-3.4	-3.4
China	6.6	6.2	6.0	2.1	2.4	2.3	3.8	4.0	4.0	0.4	0.5	0.0	-4.2	-4.4	-4.4
CESEE															
Bulgaria	3.1	3.5	2.8	2.7	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	3.8	3.5	4.7	4.0	3.5	4.2	3.9	4.2	-4.7	-5.0	-5.2	-2.9	-3.4	-4.7
Serbia	4.3	3.5	3.8	2.0	2.6	2.8	12.7	11.0	9.0	-5.2	-5.8	-5.5	0.6	-0.5	-0.5
Turkey	3.3	-1.5	2.5	16.3	16.0	13.0	10.9	13.0	12.5	-3.6	-1.5	-2.0	-2.1	-3.0	-2.5

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

Eurobank Fixed Income Forecasts

		2019		2020	
	Current (as of 30 July)	September	December	March	June
USA					
Fed Funds Rate	2.25-2.50%	1.96-2.20%	1.81 - 2.05%	1.73 - 2.00%	1.69-1.95%
3m Libor	2.26%	2.25%	2.18%	2.13%	2.09%
2yr Notes	1.85%	1.86%	1.87%	1.88%	1.91%
10yr Bonds	2.06%	2.10%	2.15%	2.20%	2.23%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.05%
3m Euribor	-0.37%	-0.38%	-0.40%	-0.40%	-0.40%
2yr Bunds	-0.76%	-0.73%	-0.68%	-0.68%	-0.63%
10yr Bunds	-0.39%	-0.29%	-0.16%	-0.16%	-0.05%
UK					
Repo Rate	0.75%	0.75%	0.75%	0.80%	0.85%
3m	0.78%	0.81%	0.86%	0.86%	0.93%
10yr Gilts	0.64%	0.96%	1.01%	1.06%	1.17%
Switzerland					
3m Libor Target	-0.76%	-0.74%	-0.75%	-0.75%	-0.73%
10yr Bonds	-0.74%	-0.46%	-0.36%	-0.31%	-0.26%

Source: Bloomberg (market implied forecasts)

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