

GLOBAL & REGIONAL MONTHLY

Risk sentiment improved in October, as some of the biggest downside risks facing the global economy have eased. However, incoming data point to weakening global economic momentum, as weakness in manufacturing and trade-related sectors has begun to be spreading to services. Against this backdrop, fiscal policy should play a more vigorous role, especially in countries where the space for more monetary policy accommodation is limited

Macro Picture

USA: Consumer-fueled Q3 growth, but incoming data point to slowing underlying momentum

EA: Close to stagnation as IP weakness seems to be feeding through to services

UK: Underlying growth momentum has been softening, but imminent recession fears at bay thanks to supportive private consumption

EM: Monetary loosening in attempt to contain China's slowdown

CESEE: Benign inflation dynamics in the second half of 2019, driven by lower food and energy prices on the supply side

Markets

FX: Brexit and trade war related news drove asset prices this month. USD significantly weaker on the back of Fed's "QE" announcement. GBP the winner as no deal Brexit averted for now

Rates: European and US yields retraced some of this year's tightening after reaching multi year lows in September on the back of positive developments on the Brexit and Trade War front

EM: EM credit remains in a sweet spot, despite growth issues, as global monetary easing is boosting the appeal of the asset class on the back of hunt for yield

Credit: CSPP2 initiated by the ECB, spreads tighter on positive news and higher rates. Investors have been moving further out on the curve in IG. HY is still driven by idiosyncratic stories

Policy Outlook

USA: Fed shifts into a "wait and see" stance

EA: Following ECB's stimulus package delivered in September, another deposit rate cut in the near future cannot be ruled out

UK: MPC rhetoric has shifted in a materially more dovish direction, increasing the odds of a rate cut in the foreseeable future

CESEE: Broadly loose monetary conditions or even delivery of more aggressive than expected rate cuts

Key Downside Risks

Increased trade war concerns: Renewed tensions in US-China trade dispute; escalation on the trade front between the US and EU

No-deal Brexit: December elections yield a hung government or the Brexit Party is a coalition partner in the next government

Geo (political-economic) risks: The delay of starting negotiations for Western Balkans countries' accession in the EU endangers EU's credibility, and gives rise to rival powers' antagonism, putting at stake the convergence prospects in the CESEE region

China: Potential negative spillover from China's slowdown to smaller, neighboring and heavily trade dependent on the latter countries

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Macro Views

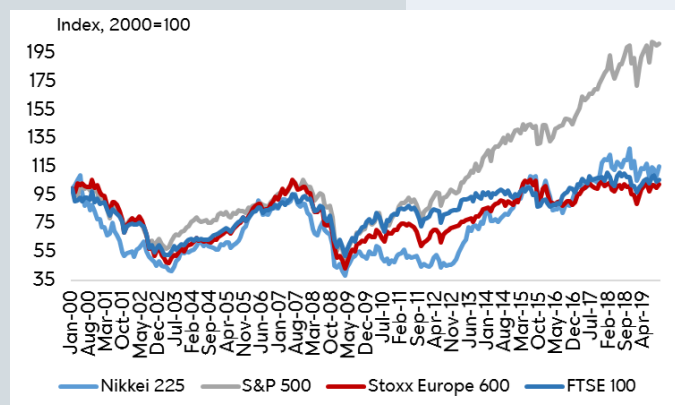
Latest Macroeconomic Developments & Outlook

World Economic Outlook

Risk sentiment improved in October, with global equities climbing towards their January 2018 highs (new record highs for the Wall Street, see Figure 1) and sovereign bond yields rising from their September lows, as some of the biggest downside risks facing the global economy have clearly eased in recent weeks. Investors' fears for a no-deal Brexit have declined and US/China trade war tensions have abated, with both sides showing willingness to negotiate and pave the way for a broad agreement. As is evident in Figure 2, world trade uncertainty has surged in Q2 2019 to a historical high of roughly 108 pts, before moderating by 8 pts to 99.7 in Q3 when the US and China agreed to resume trade talks. Nevertheless, incoming activity data in the US, China, euro area and the UK point to weakening economic momentum. Elevated uncertainty has already taken its toll on global trade growth and the manufacturing sector, which has dipped further into contractionary territory. Meanwhile, there is evidence that weakness in manufacturing and trade related sectors has begun to be spreading to the services sector (Figure 3). Against this soft macro fundamental backdrop, a shift towards increased monetary policy accommodation from major central banks has been a counterbalancing force, with the Fed's decision to start expanding its balance sheet again adding to the positive monetary policy mix that is supportive for market sentiment.

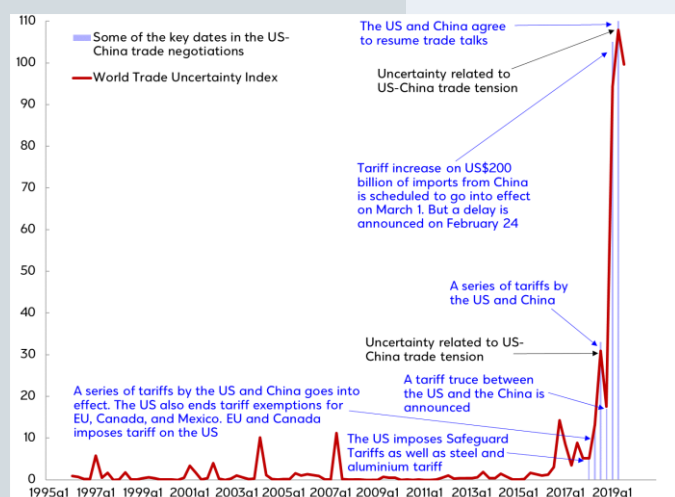
Mirroring a significant drop from 2017-2018 growth rates for emerging market, developing and advanced economies, the IMF has downgraded by 0.3pts to 3.0% its 2019 global GDP forecast from the April 2019 World Economic Outlook, the lowest level since 2008-09. Looking ahead, global growth is projected to accelerate to 3.4% in 2020, downwards revised by 0.2pts compared with April, mirroring largely an anticipated improvement in

Figure 1: Global equities in local currency



Source: Refinitiv Datastream, Eurobank Research

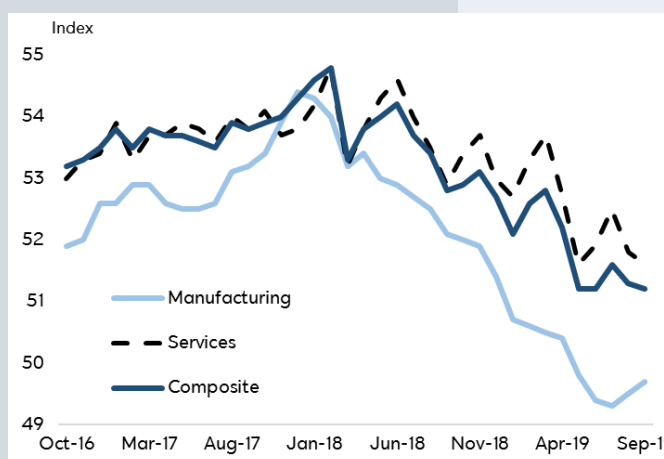
Figure 2: World Trade Uncertainty Index has surged due to US/China trade conflict



Source: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo, Eurobank Research

economic performance in several emerging markets in Latin America, the Middle East, as well as emerging and developing Europe that are under macroeconomic strain.¹ Despite the recent monetary policy easing in a number of countries that could boost demand, risks to the global economic outlook remain skewed to the downside as further disruptions to global trade and supply chains could weaken investment and, hence, output growth in the medium term. Additionally, protracted weakness in global manufacturing could lead to a significant softening in services, especially at sectors that are more sensitive to a softening in demand (i.e. logistics, finance, legal). A deceleration in the services sector could urge firms to cut back on hiring, potentially translating into lower consumer confidence and private spending. Adding to the above, services employment has recently slowed, while surveys of non-manufacturing sentiment in the US have trended downwards. Given a fragile economic outlook and large downside risks, fiscal policy should play a more vigorous role, especially in countries where the space for more monetary policy accommodation is limited.

Figure 3: Global PMIs suggest that weakness is spreading to services



Source: Refinitiv Datastream, Eurobank Research

Developed Economies

US: Although Q3 real GDP growth surprised on the upside, with personal consumption remaining the key growth driver, business investment has been on a downward trend reflecting the broad-based slowing in domestic manufacturing activity, softer global growth and trade policy uncertainty. With incoming data pointing to slowing underlying momentum with signs of renewed weakness in goods-producing sectors that could be spilling over into services, we maintain our 2019 real GDP growth projection at 2.3% from 2.9% in 2018, before decelerating to 1.6% in 2020 as the fiscal stance turns from expansionary in 2019 to broadly neutral.

Euro area: Real GDP increased in Q2 by 0.2%QoQ for the second consecutive quarter most likely supported by buoyant domestic demand, reporting half the pace of Q1 growth probably due to a negative contribution from external trade. Latest industrial production data point to a negative carry-over at about -0.9%QoQ, its lowest point since Q4 2012. With the flash Composite PMI index close to stagnation and actually consistent with a GDP growth increase of just under 0.1%QoQ, our 2019 real GDP growth projection stands at 1.1% from 1.9% in 2018, with risks stemming from the global environment skewed to the downside. Easing fiscal policy measures could partly offset gloomier global economic prospects.

¹ For more details see IMF World Economic Outlook, October 2019 <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>

Periphery: With a bounce in domestic demand partially offsetting the negative contribution from net exports, Italy and Spain, the two biggest southern European peripheral economies, recorded a quarterly GDP growth rate in Q3 unchanged compared to that in the prior quarter (0.1% and 0.4%, respectively). However, forward indicators suggest that underlying momentum is either slowing (Spain) or continues to be sluggish (Italy), with growth risks remaining tilted to the downside, mainly 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: The approval of the pension reform in Brazil sets the ground for further reforms as the economy is still in search for robust growth drivers. At its latest monetary policy meeting, Russia's Central Bank cut its key policy rate by 50 basis points to 6.5%, which is the lowest level since 2014. The Central Bank expects GDP growth to come in between 0.8% and 1.3% in 2019, which is closer to the growth forecasts of the IMF and World Bank (1.1% and 1.0%, respectively, vs. 2.3% in 2018). Finally, in India, economic activity has slowed sharply during H22018, expanding from April to June 2019 only by 5.0% YoY, which is considered a 6-year low. The slowdown comes on the back of weaker domestic demand.

CESEE: Taking into account a domestic environment of benign inflation outlook, dovish major Central Banks stance and weaker global economy growth prospects set the ground for regional Central Banks to maintain broadly loose monetary conditions and even deliver more aggressive than expected rate cuts in Q3.

Special Topic

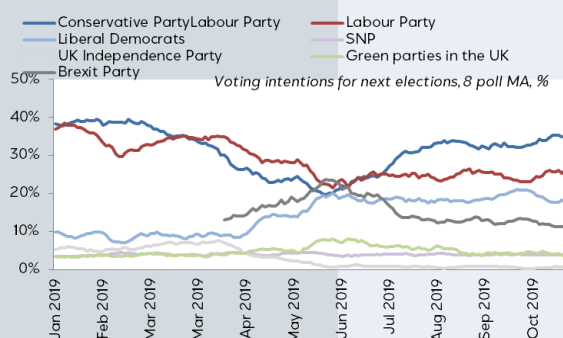
UK calls snap elections in hopes of breaking Brexit deadlock

In a parliamentary success for UK PM Boris Johnson, MPs approved on October 29 a short bill proposed by the government calling for an early election on 12 December (i.e., the legislation needed a simple majority of MPs, a lower threshold than a two thirds majority required under the Fixed-term Parliament Act). The bill is set to be debated in the House of Lords and, subject to its consent, parliament will dissolve on 6 November for a short election campaign of five weeks before reconvening on 6 January. This came after EU leaders accepted the UK's request (under the Benn Act) to extend the Brexit deadline for three months to 31 January 2020, with the option the UK to exit the EU earlier provided that a Brexit deal has been ratified before then. Meanwhile, in return for opposition parties supporting the bill for snap elections, PM Boris Johnson agreed to freeze the EU Withdrawal Agreement Bill (WAB), i.e., the legislation required for the implementation of his new Brexit deal which envisions, inter alia, the UK being fully outside of the EU single market and customs union, with the exception of Northern Ireland which would be subject to a dual customs zone, leading effectively to the creation of a customs border in the Irish Sea. Thus, Brexit is likely to be the main issue for this election campaign.

Since Boris Johnson became the new party leader in late July, Conservatives have seen a surge in their public support, with recent opinion polls suggesting that the party enjoys a comfortable lead of more than 10 points over the Labour Party (Figure 4). In more detail, the average of the latest 8 published polls points to 36% support for the Conservatives, 25% for the Labour Party, 18% for the Liberal Democrats and 11% for the Brexit Party. However, despite the healthy Conservative lead in opinion polls, the outcome of the election is highly unpredictable. This is partly due to the UK's electoral system, the so-called First-Past-the-Post (FPTP), where the candidate in each of the 650 single-member constituencies with most of the votes (not necessarily the majority) takes the seat. Furthermore, voting intentions could change as we move closer to the polling day.

The Conservative Party will run on the terms of the Boris Johnson's Brexit deal rather than a disorderly exit. That means, a Conservative Party solid majority would allow Boris Johnson to push through his Brexit deal soon after, so as the WBA to be ratified in time for the UK's exit on 31 January 2020. Should this be the case, the government's focus will turn on the second phase of Brexit negotiations with the EU, i.e., the Political Declaration which –based on the new Brexit deal– would indicate a free trade agreement after the transition period ends on 31 December 2020 (with the option to be extended by up to two years). Thus, under such a scenario, the risk of a no-deal Brexit appears to be quite small.

Figure 4: Boris Johnson's ruling Conservative Party enjoys a clear lead in recent polls



Source: Press reports, Eurobank Research

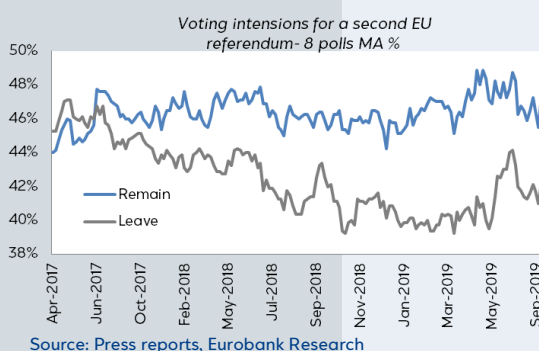
But the PM's failure to deliver Brexit by 31 October 2019, as he had repeatedly pledged during the campaign for the Conservative Party leadership, could potentially weigh on the party's popularity with Leave voters likely moving to the Brexit Party which favors a no-deal outcome. Under the scenario that the Brexit Party performs sufficiently well to the extent that the Conservative could only form a government with the support of the Brexit Party, no-deal Brexit fears would undoubtedly flare up again.

If, however, the Conservative Party does not win or cannot form a coalition government with the Brexit Party, and, instead, the Labour Party performs sufficiently well to form a majority government (highly unlikely in our view) or a government with the support of other pro-EU parties, chances of a softer Brexit deal and a second referendum would increase. The Labour Party is expected to campaign on a softer Brexit deal that would allow the UK remaining in the EU customs union and a second referendum with "Remain" as an option (Figure 5: based on recent opinion polls for a second EU referendum, "Remain" is slightly ahead but it is a close call).

Thus, under a Labour-led government, another Brexit extension would be required beyond January 2020 to secure time for UK/EU renegotiation on a new Brexit deal and a second EU referendum. Liberal Democrats, the clear party of Remain, will likely campaign on the platform of revoking Article 50 and remaining in the EU. Note that, based on recent opinion polls, the two scenarios envisioning Conservative Party majority or a Conservative/Brexit Party coalition government appear to be more likely than the scenarios of a Labour Party victory or the formation of a Labour /Liberal Democrat coalition government.

However, the possibility that the House of Commons remains in deadlock after the 12 December election without a clear majority for any party or coalition of parties, cannot be ruled out completely. Under such a scenario, risks regarding a no-deal Brexit may be rekindled.

Figure 5: "Remain" is slightly ahead but it is a close call



Global Macro Themes & Implications

US/China trade war tensions ease; but trade policy uncertainty persists as trade talks continue

The US and China reached an agreement in mid-October on the outline of a mini trade deal that US President Donald Trump called a Phase One Trade Deal. Under the terms of the said deal, the US will suspend the planned tariff increase on \$250bn of Chinese imports that was originally scheduled to kick in on 15 October. On its part, China will buy larger amounts of US agricultural products (to an annual value between \$40bn to \$50bn within the next two years from a previous peak of \$16bn) and will accelerate the opening of the financial sector, while there was also an agreement on intellectual property, FX transparency and an enforcement mechanism. The current plan is the Phase One Deal to be formalized in writing soon and to be signed at the upcoming Asian Pacific Economic Cooperation (APEC) meeting on 16-17 November, before the two sides immediately move on the “Phase Two” which will focus on more contentious issues, including intellectual theft, forced technology transfer and Chinese industrial subsidies. That said, the gap between the mini deal and a comprehensive trade deal remains large, as a “Phase Two” (or “Phase Three”) deal may be much harder to agree on, taking into account that it would include issues which are considered to be China’s economic “red lines”. To sum up, though our main view is that the two sides will eventually reach a deal in the not too distant future, as the Chinese economy is losing momentum and the US President is heading into an election year, a renewed escalation in the US/China trade dispute cannot be ruled out completely.

Fed shifts into “wait-and-see” mode

As widely expected, the Fed cut rates by 25bp for the third consecutive FOMC meeting on 29-30 October, taking the target range for the fed funds rate down to 1.50-1.75%. Kansas City Fed President Esther George and Boston Fed President Eric Rosengren once again voted against the rate cut, while St. Louis Fed President James Bullard voted in favor of the 25bp cut, following his vote for a 50bp cut at the September FOMC meeting. More importantly, the Fed changed its forward guidance in the accompanying statement and actually removed its easing bias without pre-commitment, dropping the phrase that it would “act as appropriate” to sustain the economic expansion and instead noting that it will “assess the appropriate path of the target range for the federal funds rate” based on incoming information for the economic outlook. When asked about what would urge the committee to ease further its monetary policy, Fed Chair Jerome Powell responded that this could happen should upcoming economic and market developments cause the Fed to materially reassess its growth outlook. Nevertheless, the Fed now believes that the current monetary policy stance is “appropriate” and should be maintained as long as the outlook is “keeping with-in expectations”. All in all, it seems that the Fed has concluded for now its mid-cycle adjustment and will likely remain on the sidelines for some time, so no preemptive/insurance-driven rate cuts are expected in the near future. The outcome of the October FOMC meeting lowers the likelihood for an interest rate cut at the 10-11 December FOMC meeting provided that economic data do not deteriorate further.

Macro Themes & Implications in CESEE

Benign inflationary pressures allow regional CBs to maintain broadly loose monetary conditions or even deliver more aggressive than expected rate cuts

The set of September and most probably the set of October CPI data releases are expected to confirm the broader CESEE region's benign inflation dynamics in 2H- 2019. Driven by lower food and energy prices on the supply side and lower pressures on the core, headline inflation has decelerated in the vast majority of the region's economies coming in below market expectations. In Bulgaria, inflation declined to 2.3% YoY in September down from a twelve month peak at 3.7%YoY in April and 2.7%YoY in December. In Romania, an outlier in the region, inflation has been rallying at 4.5%YoY in September-with core inflation at 3.4%- compared to only 3.3%YoY in December, exceeding the NBR's target interval upper threshold (2.5%+/-1pp) for multiple months in a row. In Serbia, where inflationary pressures appear more muted, headline CPI stood at 1.1%YoY which is the lowest reading in the last 17months -below the NBS target band (3%+/-1.5%)- compared to 2.0%YoY in December. In Turkey, having rallied in double digits throughout the past year, headline inflation slowed down to 9.3% YoY in September at the lowest level in the last three years down from 15.0% YoY in August compared to 20.3% YoY in December. More importantly, taking into account a domestic environment of benign inflation outlook, dovish major Central Banks stance and weaker global economy growth prospects set the ground for regional Central Banks to maintain broadly loose monetary conditions and even deliver more aggressive than expected rate cuts in Q3. This is even more evident in the case of high yielders such as Turkey (1000bps rate cuts in the last 3 meetings), Russia (50 bps) and Ukraine (100bps).

Following EU's deadlock over membership accession for North Macedonia and Albania, further enlargement is at crossroads

In early October, prominent officials urged EU institutions to begin accession talks with Albania and North Macedonia, which have been candidate countries since 2014 and 2005 respectively and have both made sizable progress in meeting the criteria for joining the Union. A couple of weeks later, the European Council failed in deciding unanimously, as required, on the matter with France standing out as the key opponent, citing procedural reasons for blocking the two countries and arguing that the EU's entire accession system is in need of an overhaul. Following the decision to postpone accession talks, North Macedonia's government called snap elections while the two countries must wait by May 2020 for an update on their application status, when the EU-Western Balkans Summit will take place in Zagreb. The outgoing President of the European Council, Donald Tusk stated that both countries have done their share while the EU has not and the former President of the European Commission, Jean Claude Juncker gave a more dramatic tone to the outcome, stating that the inability of the EU member states to unanimously grant the two candidates the green light for accession talks is a grave historic mistake. That said, apart from the EU's credibility which is undermined as both countries have, as asked, accomplished major undertakings such as tackling an aging dispute with Greece for North Macedonia and reforming its judiciary system for Albania, what does such an outcome omen for EU's enlargement in the Western Balkans going further? While EU enlargement conditionality has been credited with playing a positive role in 'Europeanisation' of the post-communist countries of Central and Eastern Europe that have joined the EU since 2004, it appears to have

run out of steam with regard to the current candidate countries in Southeast Europe; Along with North Macedonia and Albania and letting aside Turkey, Serbia, Bosnia Herzegovina, Montenegro and Kosovo are listed as potential accession candidates. Given that their accession in the EU would not change fundamentally the EU economic metrics further attempts of enlargement could be examined more thoroughly from a geostrategic point of view. There are already rising voices within the EU that unless EU's credibility is not imminently restored by commencing negotiations as promised, rival powers in the Balkans region such as China, Russia and Turkey could take advantage of the fragile and newly established stability in the area.

CESEE Markets Developments & Outlook

Bulgaria

Bulgarian Eurobond yields on the short end of the curve displayed modest gains of 1-2 bps, while the 2035 tenor displayed a significant drop of 11 bps. Local yields also exhibited mixed results, largely in the belly of the curve, where the 5 and 8 year yields increased by 5-6 bps, while the 6 and 7 tenors dropped by 5-7 bps. On October 7th, the Ministry of Finance re-opened the 20 year issue, which was originally offered on 21.06.2019. Having exhausted the annual limits set by the government on local debt issuance in 2019, the nominal amount issued on the auction was only €35mn. In 2019, the Ministry of Finance raised €0.511mn from 10 and 20 year bond auctions and the amount is expected to double in 2020, in line with the new Budget forecast released earlier this month.

Serbia

For the first time in history, Serbia's 5YCDS falls below 90, unequivocally signaling strong recovery path. Following Moody's rating improvement, Fitch also upgraded Serbia credit rating to BB+ with the outlook kept stable. Fitch noticed that fiscal discipline has been preserved in 2019 (between 2014 and 2018, Serbia switched from 6.2% deficit to 0.9% yearly surplus), while all indicators point to further improvements in terms of public debt reduction. Fitch sees public debt to GDP ratio in 2021 at 46.2% down from 51.9% at the time of writing and envisages a virtuous route of Serbia's debt restructuring. The part of debt denominated in dinar has been increased while there is a plan of further repayment of expensive US dollar denominated debt. Despite the vigorous recovery and economic upturn, markets are offering a really tiny space for maneuvers.

The exchange rate keeps being heavily safeguarded by the National Bank of Serbia (NBS); During January -October, the dinar appreciated only by 0.57% which is just a fraction of what could have happened if there was no NBS intervention. The NBS bought €2.5bn this year to halt strengthening of the currency.

Already compressed yields keep falling down while illiquidity continues to be the main drawback in Serbia's bond market further development. Flattening continues in the government bond yield curve, with the biggest drop recorded on the 7 year paper, i.e. 17 basis points lower compared to a month before.

Markets View

Foreign Exchange

EURUSD: Strong month for the EUR on the back of reduced probability of a no deal Brexit. The pair hit a low of 1.0879 before rallying to a high of 1.1179. Purely driven by Brexit headlines at the moment as the ECB did not hold any surprises for the market. We see this move higher as corrective, given that rate differentials and flows still favor the USD. The 200 days Moving Average currently at 1.12 should act as a strong resistance and the October lows should eventually be broken.

GBPUSD: The no deal Brexit uncertainty is, almost, out of the way and we had a clear break higher. At current levels we expect the pair to consolidate in the 1.26 – 1.30 range before any further move higher. We see the recent price action as a reversal of the medium term trend and a move from sell the rallies to buy the dips.

USDJPY: We see the recent rally in the pair as corrective on the back of the general risk on sentiment due to positive news from the Brexit and trade war fronts. We expect this rally to be capped in the 109 area by the 200 day moving average and the 109.70-110 resistance. We expect the September low at 104.46 to be revisited by year end.

Rates

EU: Despite QE infinity and bad economic data, rates continued to retrace higher post the September ECB meeting in a classic “buy the rumor, sell the fact” event as the bund moved from a low of -0.62% to a high of -0.32%. Positive Brexit developments were the primary trigger in October. The sell-off was driven primarily by Germany causing spreads with the periphery and semi core to tighten. Tiering, that started on 30 October might cause some distortions in the EGBs repo market, especially for Italian bonds, but should be limited and contained. We would be buyers of EU sovereigns into year end and expect further compression versus bunds with curves resuming their flattening.

US: The Fed delivered another rate cut, as expected by the market. Trade wars with China and economic data will remain the drivers of US yields and 2% is expected to cap and any further increase in 10 year Treasuries that traded in a range between 1.50% and 1.86%. As economic growth and inflation expectations remain subdued the curve is expected to flatten from current levels with the long end outperforming despite potential issuance. We expect the years’ lows in yields to be revisited.

Emerging Markets credit

Emerging market hard currency spreads continued their rally towards the 2018 lows on the back of favorable rhetoric from global central banks and easing financial conditions. The J.P. Morgan EMBI Global Spread Index tightened by 12bps in October to 325 and we are now targeting the 2018 lows of 290 after printing at a high of 440 in January 2019. Idiosyncratic stories (Argentina, Lebanon, Turkey) are still dealt

as such and do not feed to the rest of the market. Trade wars and monetary policy remain the main drivers of spreads and while tight, hunt for yield remains intact. Total return was flat as tightening spreads were balanced by higher rates. The biggest risks in our view is the general complacency of the market regarding trade wars and that they will end soon via an agreement. We remain tactical buyers of on any widening.

Corporate credit

Credit had a strong month in October with HY spreads outperforming IG, as the two compressed significantly on the back of easier monetary policy announcements and positive market news (Brexit/Trade wars). On 30 October CSPP2 initiated by the ECB adding further support to spreads (although mostly priced in) in an already low liquidity secondary market. The ECB's participation in the primary market is expected to make allocations there significantly worse for other investors. Spreads are tight and curves relatively steep with buyers moving further out for a pick-up in yield/spread. Overall, we remain defensive in our outlook for the credit market and prefer IG over HY on both sides of the Atlantic as we expect moderate widening into year end. Once again we stress the rising number of idiosyncratic stories in the HY space. In the IG space we prefer the 7-10 year tenor as funding levels make shorter dated investments unattractive.

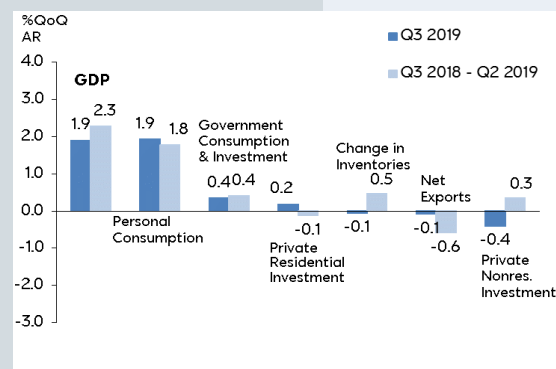
US

Consumer-fueled Q3 GDP growth, but incoming data point to slowing underlying momentum

According to the BEA's advance estimate, Q3 real GDP growth came in stronger than expected at 1.9%QoQ saar from 2.0%QoQ saar in the prior quarter. Personal consumption remained the key growth driver, rising by 2.9% QoQ saar and contributing 1.93pp to Q3 growth. Overall, interest-sensitive segments of the economy accounted for roughly one-third of the boost to aggregate GDP growth for the second consecutive quarter (consumer durables spending and residential investment, with the latter contributing positively to growth for the first time since Q4 2017), mirroring the positive impact of lower interest rates to real economic activity. Partly offsetting these positive contributions, business investment declined for the second quarter in a row, deducting 0.4pp from GDP growth and reflecting the broad-based slowing in domestic manufacturing activity, softer global growth and trade policy uncertainty. Moreover, net exports and inventories were a modest drag on growth, subtracting a total of 0.2pp. With incoming data pointing to slowing underlying momentum with signs of renewed weakness in goods-producing sectors that could be spilling over into services, we maintain our 2019 real GDP growth projection at 2.3% from 2.9% in 2018, before decelerating to 1.6% in 2020 as the fiscal stance turns from expansionary in 2019 to broadly neutral in 2020.

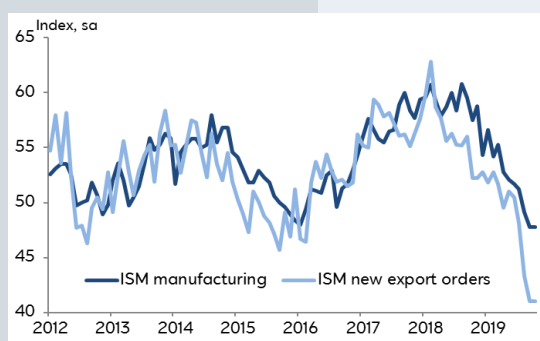
As widely expected, the Fed cut rates by 25bp for the third consecutive FOMC meeting on 29-30 October, taking the target range for the fed funds rate to 1.50-1.75%. In the accompanying statement, the Fed dropped the phrase that it would "act as appropriate" to sustain the economic expansion and instead noted that it will "assess the appropriate path of the target range for the federal funds rate" dependent on incoming information for the economic outlook. Based on the above and on the Fed Chair Jerome Powell's comments in the post-meeting press conference, it seems that the Fed has concluded for now its mid-cycle adjustment with the current stance of monetary policy being characterized as "appropriate". Hence, no preemptive/insurance-driven rate cuts are expected in the near future, unless upcoming economic and market developments cause the Fed to materially reassess its growth outlook.

Figure 6: Contributions to real GDP



Source: US BEA, Eurobank Research

Figure 7: The ISM points to further downside in the manufacturing sector



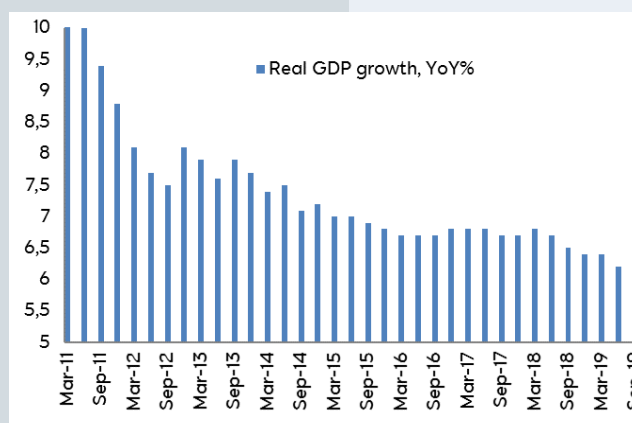
Source: ISM, Bloomberg, Eurobank Research

China

Despite Q3's lower economic growth print, the slowdown appears contained

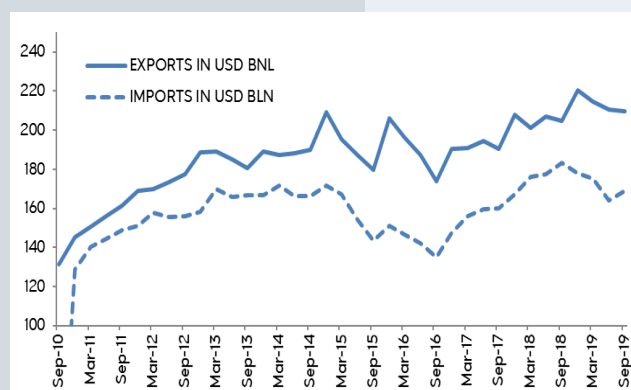
China's Q3 GDP growth eased further to 6.0% YoY, from 6.2% in Q2 and 6.4% in Q1, bringing the GDP growth rate for the first nine months of 2019 to 6.2% and the consensus forecast for FY2019 to 6.1% from 6.2% before the Q3 print announcement. Based on the expenditure breakdown, the 6.2% YoY economic growth rate in the first nine months breaks down in 3.8% attributed to consumption and 2.4% equally split between investments and net exports. Regarding the economic slowdown in Q3, it is primarily driven by subdued investments, explaining in great lengths China's economic slow-down in the last decade. While investors appear worried over whether the Chinese economy is heading for a hard landing or is bottoming out, the most recent high frequency data point to a stabilizing economy; the negative impact from autos on total retail sales has faded away while infrastructure investment and industrial production have both picked up in September. Apparently, China's economic slow-down can be regarded as a necessary toll for the rebalancing of the economy as a whole and in that sense it is bearable by policymakers, who are not expected to rush in into further extensive stimuli neither at fiscal nor monetary front. However, limitations to policy manoeuvres must be recognized in both ends. China is a country with excessive indebtedness (corporate sector indebtedness ca 135% of GDP excluding local government financing vehicles and household debt ca 55% of GDP), reportedly struggling to tame its financial sector issues and having implemented since 2018 sizable tax cuts despite modest, but still growing, budget deficits and declining current account surpluses of the previous years. In a nutshell, China's economy is indeed pressing the brake, but with the understanding inside the country's institutions that this is a necessary downshift towards a more financially and environmentally sustainable pace. What should be paid attention to is the potential implications of this economic slowdown on smaller, neighboring countries, heavily trade dependent on China.

Figure 8: Decelerating economic growth in the last 10 years



Source: Bloomberg, Eurobank Research

Figure 9: China's trade activity appears contained



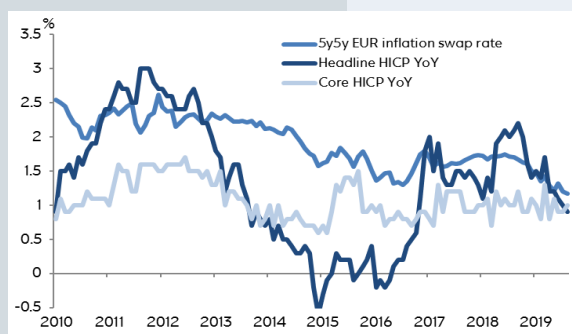
Source: Bloomberg, Eurobank Research

Euro area

Close to stagnation as industrial production weakness seems to be spreading into services

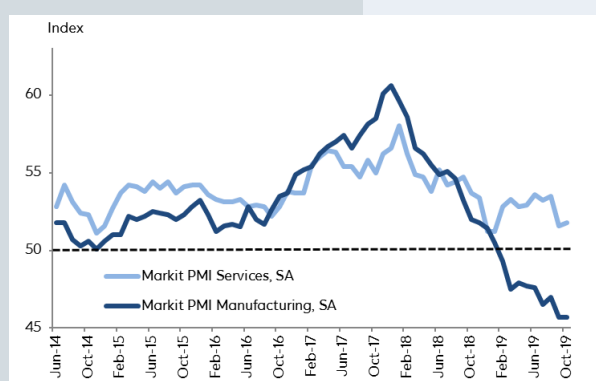
According to the preliminary flash estimate published by Eurostat on 31 October, real GDP increased in Q3 by 0.2%QoQ for the second consecutive quarter most likely supported by buoyant domestic demand (as observed in the expenditure breakdown for France and Spain), reporting half the pace of Q1 growth probably due to a negative contribution from external trade. Although industrial production increased modestly by 0.4%MoM in August following a 0.4%MoM drop in the prior month, the negative Q3 carry-over stands at its lowest point since Q4 2012 (-0.9%QoQ). Meanwhile, the flash Composite PMI index remained close to stagnation in October, increasing only marginally to 50.2 from 50.1 in September. New orders for goods and services fell for a second month in a row, although the rate of decline eased modestly. A further steep decline in manufacturing output (PMI manufacturing unchanged at 45.7 in October) was accompanied by one of the weakest service sector expansions since 2014 (PMI services at 51.8 from 51.6 in September).² Future expectations plunged to their lowest level since 2013 while employment growth sank to the gloomiest since 2014. Sentiment in the euro area also dropped further in October, falling to its lowest level since January 2015 (100.8 points, marginally above its long-term average of 100 points). With the PMI Composite indicator consistent with a GDP growth increase of just under 0.1%QoQ, our 2019 real GDP growth projection stands at 1.1% from 1.9% in 2018, with risks stemming from the global environment skewed to the downside. Easing fiscal policy measures could partly offset gloomier global economic prospects. On the monetary policy front, at the last ECB meeting under his presidency on 24 October, Mario Draghi highlighted that the latest ECB's policy measures, including the open-ended QE program and the 10bp deposit facility rate cut to -0.50%, are justified, and that significant monetary accommodation is still needed to ensure price convergence given weak inflationary pressures and downside risks to overall growth.

Figure 10: Subdued inflationary pressures in the EA



Source: EC, IHS Markit, Bloomberg, Eurobank Research

Figure 11: EA economy stagnates at the start of Q4



Source: PMI Markit, Bloomberg, Eurobank Research

² For more details see the HIS Markit PMI's press release <https://www.markiteconomics.com/Public/Home/PressRelease/0d41ffba58df4fafa8e3d8fd9df40730>

Germany

Industrial woes raise fears over recession; future of coalition government uncertain after SPD vote

Partially due to Germany's high exposure to global trade, weak manufacturing data on the back of elevated trade tensions and persisting Brexit uncertainty suggest that GDP has probably contracted slightly in Q3 (Q3 GDP due on 14 November), as it did in the prior quarter (-0.1%QoQ). Should this be the case, the Eurozone's biggest economy will enter a technical recession for the first time since Q3 2013. Factory orders declined further in August (-0.6%MoM) marking the fifth monthly drop so far this year, mainly due to a 2.5%MoM drop in domestic demand. Furthermore, industrial production unexpectedly rose over the same month (0.3%MoM) but

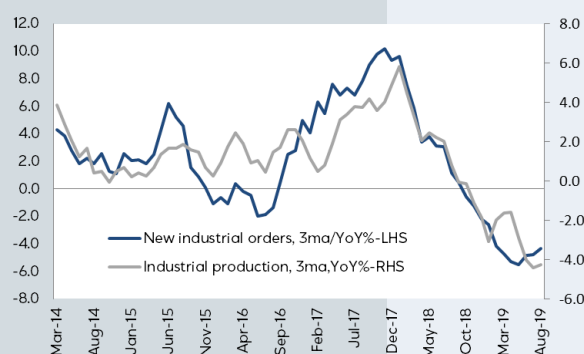
the July-August figure is still 0.9% below compared to Q2 2019 and 4.0% lower relative to the respective period in 2018. Separately, based on the HIS Markit survey, the manufacturing PMI remained stuck in contractionary territory in October for the 10th consecutive month (41.9) while the services PMI increased by the weakest pace since September 2016 (51.2), raising fears of contagion from manufacturing weakness. In spite of mounting growth concerns, the German government has resisted calls from international organizations such as the IMF and the ECB to use fiscal room to support the economy, arguing that the economy is still operating close to potential. According to its latest forecasts, the government continues to see GDP growth rate at 0.5% in 2019 but lowered its 2020 projection to 1.0% from 1.5% previously, with the Economy Minister insisting that the economy is unlikely to slide into a prolonged recession. On politics, the inconclusive outcome of the SPD members' ballot on a new party leader suggests that the party is divided over whether it will stay in the current governing coalition. A second run-off will be held in late November and is expected to serve as a referendum on the fate of the GroKo government.

Figure 12: Germany highly exposed to global trade



Source: Eurostat, Eurobank Research

Figure 13: Industrial woes raise fears over recession



Source: Federal Statistical Office (Destatis), Eurobank Research

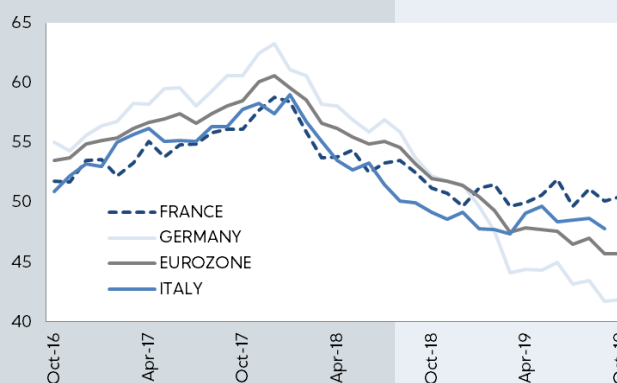
France

Growth shows resilience to global slowdown

Confirming the resilience of the economy to external headwinds thanks to its lower exposure to trade with countries outside the Eurozone, French GDP grew by 0.3%QoQ in Q3 for the third consecutive quarter, broadly in line with the average pace in H1 2018 (1.2YoY%). The expenditure breakdown revealed that the main growth driver was private consumption which slightly accelerated to 0.3%QoQ vs. 0.2%QoQ in Q2, mainly supported by the continuing improvement in labor market conditions—the unemployment rate dropped in Q2 by 0.2ppts at an over ten-year low of 8.5%, 0.6ppts below its Q1 2018 level—contained

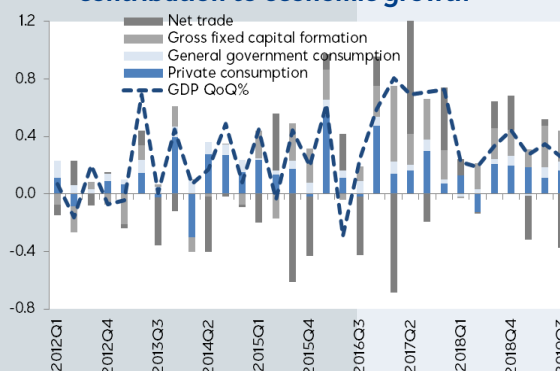
inflation pressures and the announced household tax cuts estimated at c. €21bn for 2018-2020. Gross fixed capital formation retained a firm tone (+0.9%QoQ) thanks to non-financial corporations, while net trade had a negative contribution (-0.4ppt vs. 0ppt in Q2) as, consistent with the improved domestic demand momentum, imports bounced by 1.4%QoQ (vs. -0.3%QoQ in Q2), outpacing the 0.3%QoQ pace of exports growth. Looking ahead, sentiment surveys pertaining to Q4 suggest that the French economy retains a broadly steady pace of expansion, continuing to outperform most of its largest EA peers. Mainly supported by services, the flash PMI composite index rebounded strongly in October (52.6) coming close to the August's 52.9 nine-month high and above the Q3 average of 51.9 which was the highest in the last three quarters, while consumer confidence index remained stable in October at the prior month's level of 104, the highest level in more than two years, after plunging to four-year lows late last year at the height of the yellow vests movement protests. In all, Q3 GDP data and recent sentiment surveys support our expectations for an average growth rate of 1.3% in 2019, with France likely to outperform the EA for the first time since 2013.

Figure 14: France's manufacturing PMI continues to outperform so far this year the largest Eurozone peers



Source: Bloomberg, Eurobank Research

Figure 15: GDP components' contribution to economic growth



Source: INSEE, Eurobank Research

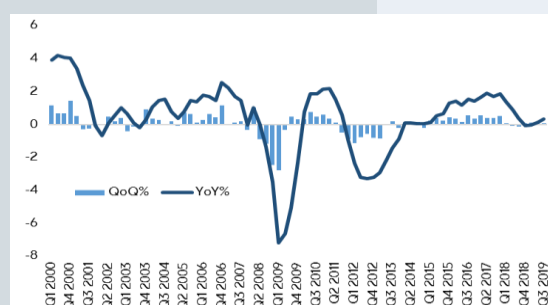
Italy

Economic stagnation continues well in Q3

According to the preliminary estimate, Q3 real GDP increased by 0.1%QoQ (0.3%YoY), with an rise in domestic demand more than offsetting a negative contribution from net exports. The QoQ change is the result of a decrease of value added in agriculture, forestry and fishing as well as a small increase in both industry and services. High frequency indicators suggest that underlying momentum continues to be sluggish, with a persistent weakness in manufacturing output largely offset by a modest pace of growth in other sectors. Having said that, manufacturing production fell for the third consecutive month in August, losing 0.1%MoM after a 0.8%MoM drop in July. Furthermore, the Markit manufacturing PMI index declined to 47.8 in September from 48.7 in August, signaling the sharpest deterioration in business conditions in six months, as a hefty decline in new orders led to a further reduction in production. Although the Istat's composite business confidence indicator ticked up slightly to 99.0 in October from 98.6 in September, the consumer confidence index dropped to a five-month low of 111.7 from 112.2 in the prior month. The recent fall in consumer sentiment, coupled with the deceleration in labor markets conditions as is evident in the unemployment rate increase of 0.4pp to a five-month high 9.9% in September, raise worries over the expansion in private consumption, which remains the main driver of growth. Overall, the carry-over annual GDP growth for 2019 is equal to 0.2%, down from 0.7% in 2018, with persistent external weakness coming on top of a fragile domestic demand.

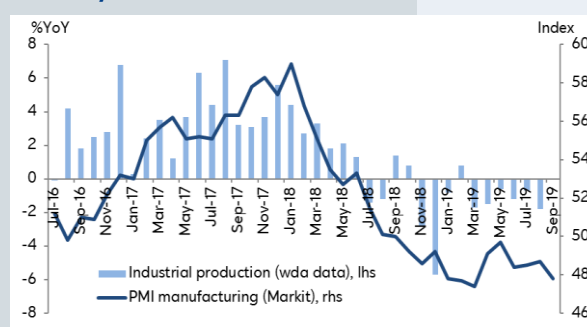
Meanwhile, on 15 October, the new government formed by the PD and the M5S submitted to the EC the 2020 budget plan. The 2020 Budget Law projects a deficit of 2.2% of GDP (+0.2pps compared to the one agreed upon with the EC last July), that is estimated to amount to €30bn and prevents the VAT increase, largely funded by increased revenue estimates and interest payment savings. The public debt-to-GDP ratio is projected to decline only marginally, to 135.2% from an estimated 135.7% in 2019, and keep a downward trend thereafter. The budget, which seems on track to be approved by the EC, is expected to have a limited positive impact on economic growth as it is entirely concentrated in the short-term.

Figure 16: Modest pace of growth continues in Q3



Source: Refinitiv Datastream, Eurobank Research

Figure 17: Industrial production in contractionary territory



Source: EC, IHS Markit, Bloomberg, Eurobank Research

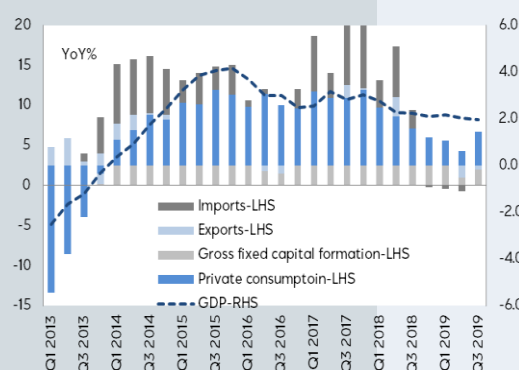
Spain

Net exports a drag on Q3 GDP; elections unlikely to break political deadlock

Spain's GDP grew by 0.4%QoQ in Q3 2019, unchanged from the previous quarter's three-year low, and down from 0.5%QoQ in Q1. Private consumption bounced rising by 1.1%QoQ, the highest pace since Q2 2017. Gross fixed capital investment also rebounded firmly growing by a two-year peak of 1.3%QoQ. On the slip side, net exports were a drag on Q3 GDP growth as, reflecting improved private consumption, imports gained 1.3%QoQ, the highest reading since Q1 2018, while exports dropped by 0.8%QoQ, the first negative quarterly rate of growth since Q2 2018, mirroring persisting global headwinds. Although growth held up in Q3, sentiment surveys point to slowing underlying momentum. The HIS Markit

Manufacturing PMI moved further below the boom-or-bust level of 50 in September to 47.7, the lowest reading since April 2013, signaling contractionary conditions in the sector for the fourth consecutive month, while the HIS Markit Services PMI fell over the same month to 53.3 from August's five-month high of 54.3. Furthermore, EC consumer confidence is sinking (down 3pts to -9.1 in October, the lowest level in more than three years), while, the INE business confidence indicator dropped in Q3 for the first time in a year coming in at two year lows (131.1). Separately, the tourist sector, one of Spain's main growth engines, is losing traction, with the number of foreign tourist arrivals falling in August for the third month this year (-0.5%YoY). All in all, after years of robust growth, the Spanish economy is expected to shift into a lower gear in 2019 and 2020 growing by 2.0% and 1.7%, respectively from 2.4% in 2018, with political uncertainty posing risks for a more pronounced slowdown. Spain is set to hold legislative elections on November 10 for the second time this year, with opinion polls suggesting that the new election is unlikely to break the political deadlock. The Catalonia issue, after the recent ruling of Spain's Supreme Court on the case of the separatist leaders, is likely to pose an additional hurdle to post-election government formation negotiations.

Figure 18: Reflecting persisting global headwinds, net exports were a drag on Q3 GDP growth



Source: INE, Eurobank Research

Figure 19: The tourist sector is losing traction



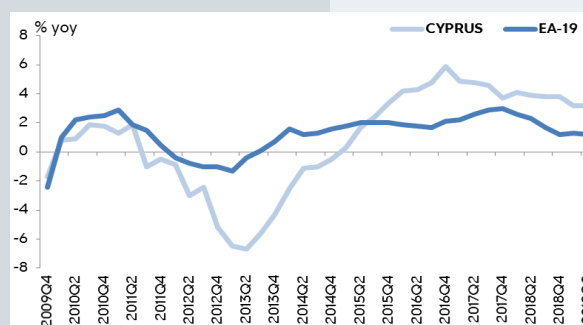
Source: INE, Eurobank Research

Cyprus

The changes to the citizenship by investment scheme have raised concerns for the prospects of the real-estate market

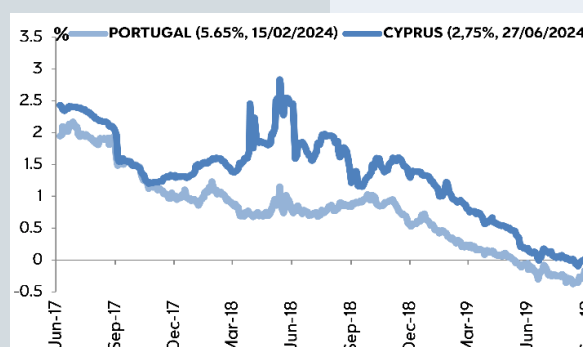
The program citizenship by investment (an investment in real estate enabled the beneficial owner to acquire the Cypriot passport) has helped Cyprus to attract foreign funded investment in the real estate sector in the form of high-rise residential towers, which are located in Limassol & Paphos. Even before the changes on the program in May, there were concerns expressed in public that the economic rebound is poised to fade away once those construction projects are completed. The government changes –aimed to make the program more targeted and trustworthy– came in response to EU institutions' criticism that the transparency of the program should be bolstered. Among others, those changes put an annual cap on the number of awarded passports, raised the total cost of the application by increasing the required investment amount of €2mn to €2.5bn and €150,000 compulsory contributions to the state for research and affordable housing purposes, put additional layers of due diligence for prospective applicants and finally increased the minimum time of holding to the asset from three to five years. As a result, the number of applications ahead of the implementation deadline increased dramatically. According to the local press, the number of awarded passports had reached year to date 550 vs. a multiyear high of 581 in 2018, but the amount of approved applications from May to date had barely reached 9. The changes have raised a lot debate within the real-estate market community on the prospects of the property market. On the other hand, the latest statistic releases were still illustrative of strong construction activity but also some signs of cooling off in property transactions have already emerged. Having expanded with double digits throughout 2017-2018, construction output increased by 16.6% in Q2-2019 up from 13.5% YoY in Q1-2019. The total value of building permits issued during the 1H- 2019 increased by 115.9%YoY up from 13.2% YoY in Q1-2019 vs. 19.5%YoY in FY2018. Accordingly, the total area of building permits rose by 52.1% YoY in the same period, up from 12.6%YoY in Q1-2019 vs. 11.9% YoY in FY2018. During 1H-2019, 4,200 building permits were issued, up from 2,839 in the corresponding period of the previous year. In contrast, the number of new sales contracts was up by 17% YoY in January-August 2019 while property transfers were down by 7% YoY in the same period.

Figure 20: Cyprus' turn-around growth story has been impressive so far



Source: CYSTAT, Eurostat, Eurobank Research

Figure 21: Cypriot medium term bond yields have improved further in recent months



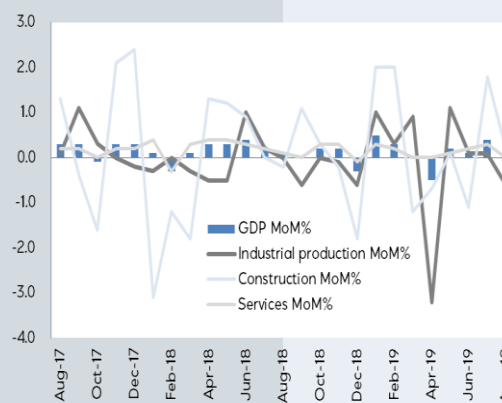
Source: Bloomberg, Eurobank Research

UK

PMI surveys imply a gap between hard and soft data

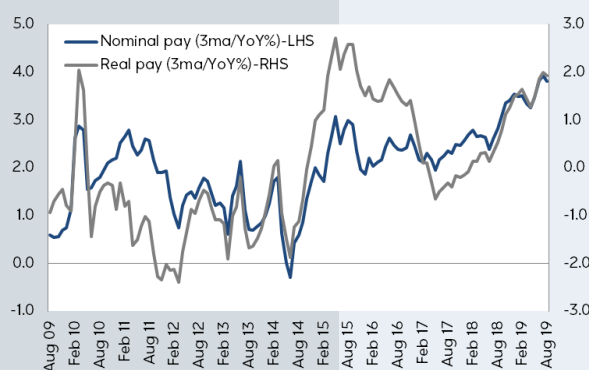
UK August GDP disappointed with a 0.1%MoM decline that was though offset by an upward revision in the figures of the prior two months, July and June (+0.4%MoM & +0.1%MoM, respectively, vs. +0.3%MoM & and 0.0%MoM previously). The main downside surprise in August's GDP print came from industrial production (-0.6%MoM), driven by a 0.7%MoM drop in manufacturing on the back of lingering Brexit uncertainty and global growth slowdown. Admittedly, the anticipated bounce in autos production following summer shutdown shift (key auto plants remained open in August after they rescheduled their annual maintenance closure for April) that was indicated by the August SMMT report did not materialise and the transport equipment component contributed nearly zero to August's GDP growth. Elsewhere, construction's growth rose 0.2%MoM while services' growth came in flat and added c. 0.19ppt to overall growth. The upward revision in July's GDP figure took the Q3 carry over at a solid 0.4% QoQ, suggesting upside risks to the BoE's projection for a 0.2% quarterly growth in Q3. However, sentiment surveys leave little scope for optimism over the UK's growth outlook. For the first time in over a decade, the September PMI survey revealed a sub-50 print for the main indices in all three major sectors and warned over a heightened risk of recession in Q3. Furthermore, the labor market, which has long been a silver lining for the economy, also started to show signs of slowing. The unemployment rate rose 0.1ppt to 3.9% in June-August compared to the previous rolling quarter, the employment rate dropped 0.2ppts to 75.9% and regular pay growth slowed from 3.9% to 3.8% in the three months to August. Assuming that the December election does not derail the course of Brexit, we expect real GDP growth to average 1.2% in 2019 and 1.1% in 2020, below the BoE's 1.5% estimate of potential.

Figure 22: Upward revision in GDP figures of July and June offsets a drop in August's GDP print



Source: ONS, Bloomberg, Eurobank Research

Figure 23: Signs of slowing in the labor market



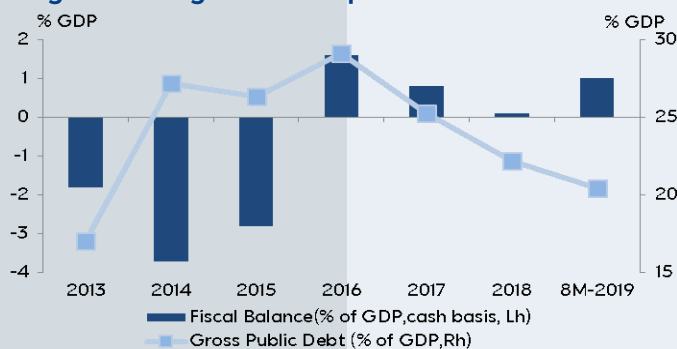
Source: ONS, Eurobank Research

Bulgaria

European Commission report acknowledged progress in the CVM areas of focus but doesn't lift the monitoring process

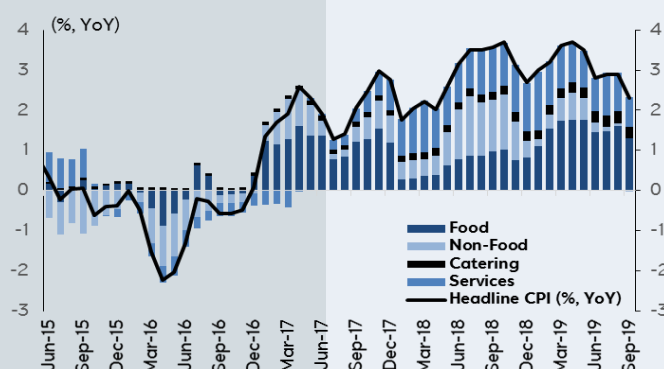
On October 27th, the European Commission (EC) published the annual progress report under the Cooperation and Verification Mechanism (CVM). The CVM was set up at the accession of Bulgaria and Romania to the European Union in 2007 in order to monitor their progress in the areas of judicial reform, the fight against corruption and organized crime so as to join Schengen area at a later stage. The EC acknowledged that the progress made by Bulgaria under the CVM is sufficient to meet Bulgaria's commitments made at the time of its accession to the EU. However, the EC didn't lift the monitoring process leaving the final decision to take into account the observations of the EU Council and the European Parliament. The EC had provisionally closed three of the benchmarks with its previous report from Nov 2018, including judicial independence, legal framework and organized crime. Three more benchmark criteria, namely continued judicial reform, high-level corruption and corruption in general including local level and borders remaining open since the previous progress report in 2018, can now be considered to be satisfactorily fulfilled. In any case, the EC has stressed that follow-up efforts will be subject to the work of a post-monitoring council already established by the Bulgarian authorities. Currently, Bulgaria fulfills most of the nominal convergence criteria for Euroarea entry. Real convergence criteria are not satisfied, although officially these are not part of the evaluation procedure. The living standards and productivity are still the lowest in EU-28. Factoring in the fast GDP growth trajectory in 2015-2020, GDP per capita in PPS terms will have only climbed to 51.4% and 52.7% in 2019 and 2020 respectively. Finally, IMF in its latest Article IV report sees GDP growth moderating to 2.75% over the medium term, reflecting capacity constraints and unfavorable demographics. Translating this positive momentum into faster per capita income convergence toward EU continues to be the key policy challenge. For that to be achieved, continued and broad-based structural reforms are required. ERM2 & Banking Union application entry preparations are underway and include several commitments.

Figure 24: Bulgaria's fiscal position is sound



Source: National Authorities, Eurobank Research

Figure 25: Inflation trending lower in recent months on lower services' prices



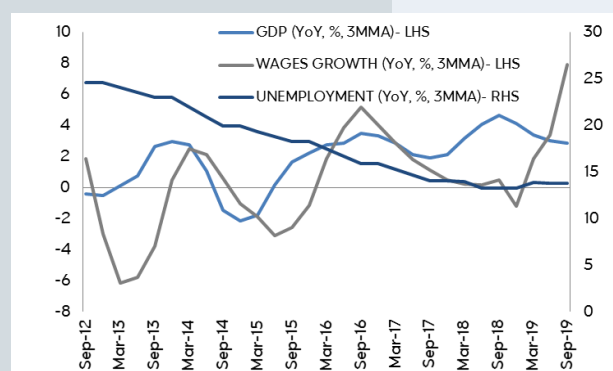
Source: National Authorities, Eurobank Research

Serbia

EU accession under question amid solid macroeconomic performance

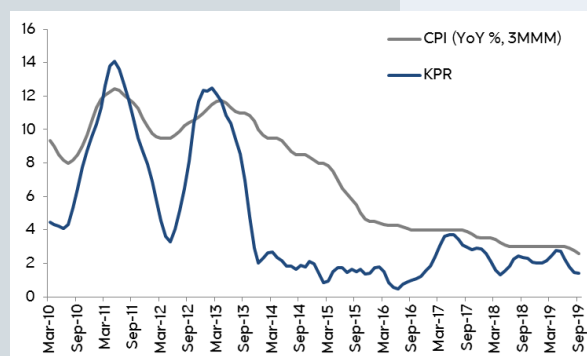
Following H1's economic growth print at 2.8% YoY, Serbia's economy is expected to speed up in H22019 primarily driven by private consumption, backed, in turn, by increasing social transfers ahead of the parliamentary elections scheduled in spring 2020. For the next couple of years, we anticipate public investments to hold a key role in terms of growth contribution as the 5-year infrastructure investments plan of ca EUR12bn (ca 30% of Serbia's GDP) is expected to phase in from 2020 onwards. On a similar tone, in the Western Balkans Regular Economic Report released recently by the World Bank, Serbia's economy is expected to grow by 3.3% YoY in 2019 and gain some more steam in the medium term. While the country has recorded substantial progress in cementing its public finances and is passing through a challenging reforming corridor under the surveillance and assistance of the IMF under the Policy coordination instrument, Serbia appears to be substantially exposed to external headwinds and specifically global subdued growth, taking into account that ca 70% of its exports are directed towards the EU, of which half towards the EA. Following the deadlock in the EU membership negotiation talks for North Macedonia and Albania in October, Serbia proceeded with signing a free trade agreement (FTA) with the Russian led Eurasian Economic Union (EAEU). Despite EU's warnings that such relations will be thoroughly monitored, especially when entailing a candidate country, Serbia stepped into a foreign trade agreement with another economic bloc than the EU, marking the first time an EU candidate country decides to strengthen its trade bonds with another bloc of countries, with the expected economic impact rendered rather limited, given than Serbia already holds FTAs with the majority of the countries comprising the EAEU. Whether this move is just a verification of Serbia's four pillars foreign policy, i.e. balancing among Russia and China on the one and EU and the US from the other, or it signals a drawback in its candidanship for entering the EU, given the rigidity of the issue with Kosovo, it remains to be seen.

Figure 26: Solid economic growth and labor market



Source: Bloomberg, Eurobank Research

Figure 27: Monetary easing amid subdued inflationary pressures



Source: Bloomberg, Eurobank Research

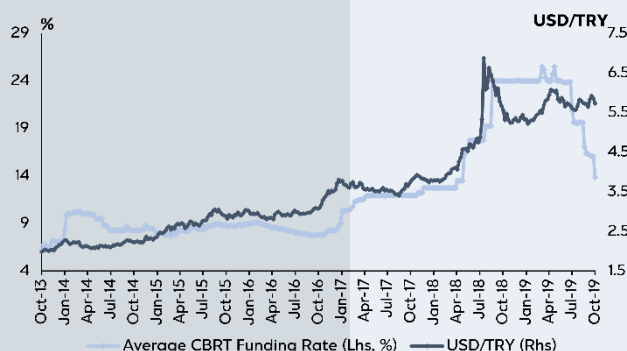
Turkey

Macroeconomic environment improves but geopolitical concerns weigh

The military operation launched in mid-October in North-East Syria has raised tensions in the diplomatic relations with NATO allies. The US sanctions imposed on Turkey initially increased volatility in the domestic financial markets, but the announced ceasefire agreement thereafter provided a boost on the lira and bonds. To the extent that those jitters are short-lived, they are not expected to have a meaningful impact on the economy. Notwithstanding the latest geopolitical developments, the data releases were pointing to an improvement of the macroeconomic environment. First of all, the GDP print of Q2-2019 confirmed

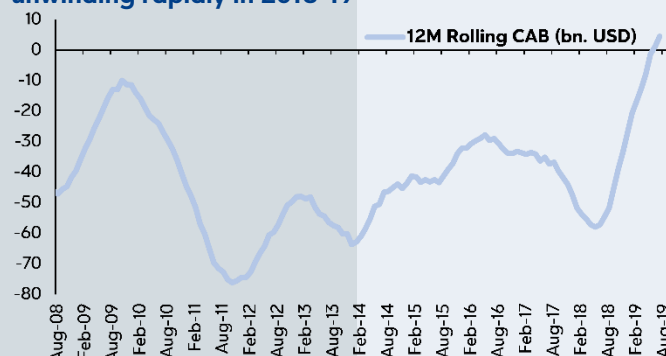
that the worst of the contraction is over. Fiscal, credit and monetary stimuli pushed the economy further out of technical recession (+1.2% QoQ/-1.5% YoY in Q2-2019 vs. a revised +1.6% QoQ/-2.4% YoY) outperforming market expectations for a deeper contraction (Reuters survey: -2.0% YoY). Second, macroeconomic imbalances have been unwinding rapidly. To that end, the current account recorded a hefty surplus for a second consecutive month in August. In detail, the current account surplus expanded by 27% YoY to \$2.6bn in August up from \$1.4bn in July bringing the twelve-month rolling surplus up to \$5.1bn. The unwinding of macroeconomic imbalances is even more impressive given that the current account switched to a \$1.0bn surplus in the first eight months of the year compared to a \$31bn deficit in the same period last year. As a percentage of projected GDP, the current account is now expected to end in a small surplus of 0.5% of GDP in FY2019 up from a -3.6% of GDP deficit in 2018 and -5.6% in 2017. Third, inflation dropped to single digit levels for the first time in three years. Headline inflation slowed down to 9.3% YoY in September down from 15.0% YoY in August compared to 16.7% YoY in July and 15.7% YoY in June, coming again below analysts' consensus for the fifth consecutive month (Actual: +1.0% MoM vs Bloomberg: +1.40% MoM). Core inflation (which excludes food, alcohol, tobacco, energy and gold prices) fell sharply to 7.6% YoY in September- at the lowest level since December 2016-compared to 13.6% YoY in August vs. 16.2% YoY in July. 14.9% in June. Inflation is expected to trend higher by year-end on negative base effects from phasing out last year record prices ending at ca.13-14% close to the CBRT latest inflation report projection.

Figure 28: Turkish Lira rebounding since late May



Source: Bloomberg, Eurobank Research

Figure 29: Macroeconomic imbalances have been unwinding rapidly in 2018-19



Source: National Authorities, Eurobank Research

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	3.1	3.1	3.6	3.2	3.2									
Advanced Economies															
USA	2.9	2.3	1.6	2.4	1.7	2.0	3.9	3.7	3.7	-2.4	-2.5	-2.6	-3.8	-4.5	-4.5
Eurozone	1.9	1.1	1.0	1.8	1.2	1.2	8.2	7.6	7.5	2.9	2.6	2.5	-0.5	-1.0	-1.0
Germany	1.4	0.5	1.2	1.9	1.4	1.4	3.4	3.2	3.2	7.3	7.0	6.5	1.7	1.0	1.5
France	1.7	1.3	1.1	2.2	1.3	1.5	9.1	8.7	8.5	-0.7	-0.6	-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	0.7	0.8	19.3	17.4	16.0	-2.9	-2.4	-2.4	1.1	0.5	-0.1
Italy	0.7	0.2	0.5	1.3	0.7	1.0	10.6	10.3	10.3	2.5	2.8	2.9	-2.1	-2.0	-2.5
Portugal	2.2	1.7	1.5	1.2	0.5	1.0	7.0	6.5	6.2	-0.6	-0.4	-0.3	-0.5	-0.4	-0.3
Spain	2.6	2.0	1.7	1.7	0.9	1.2	15.3	13.9	13.0	0.9	0.8	0.7	-2.5	-2.3	-2.0
UK	1.4	1.2	1.3	2.5	1.9	2.0	4.1	4.0	4.0	-3.9	-4.2	-4.0	-1.5	-1.5	-1.4
Japan	0.8	0.9	0.4	1.0	0.9	1.0	2.4	2.4	2.4	3.5	3.3	3.3	-3.2	-3.0	-2.2
Emerging Economies															
BRICs															
Brazil	1.1	1.8	2.5	3.7	3.9	4.0	12.3	11.8	10.8	-0.8	-1.3	-1.7	-7.3	-6.6	-6.2
China	6.6	6.1	6.0	2.1	2.2	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		-2.2	-2.2	-2.2	-3.6	-3.4	-3.4
Russia	2.3	1.4	1.7	2.9	4.9	4.0	4.8	4.8	4.8	7.0	5.7	4.2	2.6	1.9	1.3
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	3.2	3.8	2.0	2.6	2.8	12.7	11.0	9.0	-5.2	-6.0	-5.5	0.6	-0.5	-0.5
Turkey	3.3	-0.5	2.5	16.3	15.0	13.0	10.9	13.0	12.5	-3.6	0.5	-1.0	-2.1	-3.0	-2.3

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

Eurobank FX Forecasts

	Current	Q1 2020	Q2 2020	Q3 2020	Q4 2020
EUR-USD	1.115	1.110	1.130	1.140	1.150
USD-JPY	107.980	105.500	106.000	106.000	105.000
EUR-JPY	120.380	118.000	119.000	120.000	120.000
GBP-USD	1.293	1.250	1.270	1.280	1.310
EUR-GBP	0.862	0.890	0.890	0.880	0.880
USD-CHF	0.986	0.990	0.980	0.980	0.970
EUR-CHF	1.100	1.100	1.110	1.120	1.130
USD-CAD	1.317	1.320	1.310	1.310	1.300
USD-AUD	0.689	0.680	0.680	0.690	0.700
USD-NZD	0.641	0.630	0.630	0.640	0.650
EUR-SEK	10.760	10.680	10.700	10.630	10.500
EUR-NOK	10.247	9.880	9.880	9.800	9.730

Source: Bloomberg (market implied forecasts)

Eurobank Fixed Income Forecasts

	Current	December 2019	March 2020	June 2020
USA				
Fed Funds Rate	1.50-1.75%	1.50-1.75%	1.36-1.60%	1.28-1.55%
1 m Libor	1.78%	1.72%	1.65%	1.60%
3m Libor	1.90%	1.83%	1.76%	1.70%
2yr Notes	1.53%	1.52%	1.52%	1.54%
10 yr Bonds	1.69%	1.62%	1.68%	1.77%
Eurozone				
Refi Rate	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.40%	-0.48%	-0.50%	-0.50%
2yr Bunds	-0.66%	-0.82%	-0.80%	-0.77%
10yr Bunds	-0.41%	-0.61%	-0.56%	-0.51%
UK				
Repo Rate	0.75%	0.75%	0.70%	0.70%
3m	0.81%	0.76%	0.74%	0.73%
10-yr Gilt	0.63%	0.56%	0.66%	0.75%
Switzerland				
3m Libor Target	-0.76%	-0.80%	-0.83%	-0.85%
10-yr Bond	-0.56%	-0.84%	-0.79%	-0.75%

Source: Bloomberg (market implied forecasts)

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