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GLOBAL & REGIONAL MONTHLY

Market focus has turned to the rapid spread of the novel coronavirus (nCoV), with investors increasingly concerned about its potential impact on the Chinese and the world economy, especially in a fragile global economic environment where recovery in global manufacturing and trade looks rather premature. We expect a modest acceleration in economic growth in 2020 to 3.1% from an estimated 2.9% in 2019, with the balance of risks remaining skewed to the downside mainly due to China's coronavirus outbreak and ongoing US/China trade talks

Macro Picture

USA: Domestic demand softened in Q4, but the underlying trend in consumption remains solid

EA: GDP barely expanded at year-end, but there are tentative signs of stabilization

UK: Post-election sentiment indicators surge, pointing to growth recovery at the start of 2020

EM: Coronavirus outbreak undermines the recovery prospects of large developing economies

CESEE: Coronavirus adds to the challenges of the broader region's growth resilience in 2020

Markets

FX: JPY stronger on risk off sentiment while GBP weaker on the back of tough trade talks post Brexit

Rates: Rates lower in both Europe and US as the coronavirus spreads. Lower yields expected

EM: EM sold off and any further widening is seen as a buy opportunity

Credit: Investment grade remained unimpressed by the risk off, while High Yield got hit by a combination of weaker commodity prices and virus related headlines

Policy Outlook

USA: Fed on hold throughout 2020 unless there is a "material reassessment" to the outlook

EA: Unchanged monetary policy, maintaining an easing bias; Strategy review launched

UK: BoE on hold in January but likely to cut rates later this year if upcoming hard data disappoint

CESEE: Limited room for more expansive fiscal and monetary policies in 2020

Key Downside Risks

Heightened global growth concerns: The coronavirus outbreak escalates further

Renewed escalation of trade tensions: US tariff reinstatement; higher US tariffs on EU car imports

Increased Brexit uncertainty: A UK/EU trade deal is not finalized by end-December 2020 and the transition period is not extended

China & EM sensitivity: Increased contagion risk of the coronavirus and inability of some developing countries to deal with the threat

Themes in this issue

Special Topic: Novel Coronavirus potential threat to the global economy

Increased **EU/UK no trade deal uncertainty**

CESEE: Coronavirus added to the growth outlook **risks** in 2020

Contributing Authors:

Ioannis Gkionis
Senior Economist
igkionis@eurobank.gr

Maria Kasola
Economic Analyst
mkasola@eurobank.gr

Olga Kosma
Research Economist
okosma@eurobank.gr

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr

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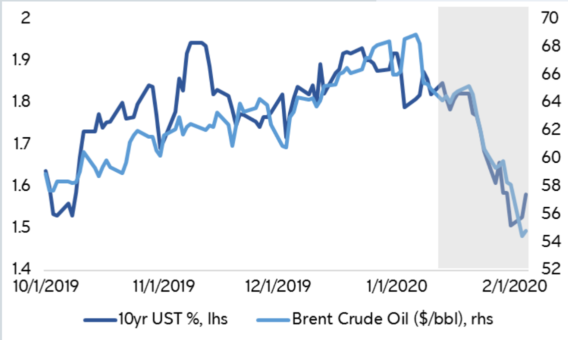
World Economic Outlook

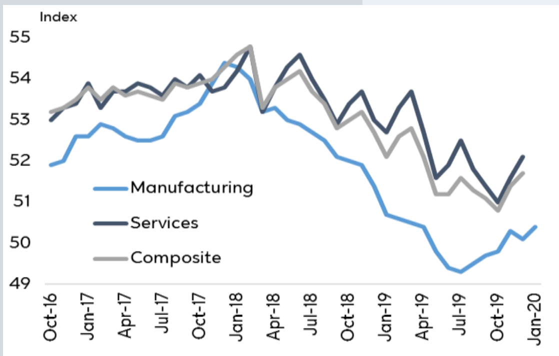
Market focus has turned to the rapid spread of the novel coronavirus (nCoV), with the World Health Organization (WHO) declaring the outbreak of the virus a global health emergency. As a result, investors seemed increasingly concerned about its potential impact on the Chinese and, consequently, on the world economy, especially in a fragile global economic environment where the recovery in global manufacturing and trade looks rather premature. Most major equity markets from around the world dipped into negative territory YTD at the end of January, mirroring the downside risk of the new coronavirus continuing to spread -even at a faster pace- in the coming months leading to a larger-than-expected adverse effect on global GDP growth. The downbeat view was also reflected in the sharp decline in government bond yields, with the 10-year Treasury yield back to last October's levels when the Fed lowered the target range for the federal funds rate to 1.50-1.75% (coupled with monthly Treasury bills purchases and overnight dollar liquidity injections), and the 2-year Treasury yield hitting its lowest level since September 2017 when the fed funds target was only 1.00-1.25%. Following, though, the Chinese authorities' efforts to contain the negative repercussions on the domestic economy, major equity markets reversed some of their recent losses at the beginning of February on hopes that the impact of the novel coronavirus would be limited and contained. The impact of the new virus outbreak has resulted in a significant decline in China's oil demand (-3mn bpd, i.e. 3% of global demand) due to factory shutdowns and a drop in transportation demand. Therefore, oil prices continued their downtrend on fears of plummeting economic demand, with Brent crude falling below $54/bbl for the first time in more than a year and reporting c. 17% YTD losses (Figure 1).

Figure 1: UST yields and oil prices sharply down amid the new coronavirus outbreak



Source: Bloomberg, Eurobank Research

Figure 2: Global leading indicators seem to have bottomed out



Source: Refinitiv Datastream, Eurobank Research

In the meantime, leading indicators of global trade have been bottoming out recently, providing some relief to the manufacturing sector. The global manufacturing PMI increased to a nine-month high of 50.4

in January from 50.1 in December (Figure 2), with rates of expansion in output and new orders accelerating at a modest pace. Business optimism improved to a near one-and-a-half year high, with broad-based strength in both emerging markets and developed nations, hitting 22- and 12-month highs, respectively. Nevertheless, the ongoing recovery in the goods sector is expected to be interrupted in the coming months by the outbreak of the nCoV in China. Overall, we expect a modest acceleration in economic growth in 2020 to ca. 3.1% from an estimated 2.9% in 2019, with the balance of risks remaining skewed to the downside amid China's coronavirus outbreak, the economic effect of which depends crucially on its duration.

Developed Economies

US: Q4 real GDP increased by the same pace as in Q3 (+2.1%QoQ saar), with a softer-than-expected contribution from private consumption, falling business investment and a robust contribution from net trade that was partly offset by weak inventory accumulation. In spite of weak October and November retail sales readings, personal consumption outlook looks rather positive starting 2020 as core retails sales rebounded strongly in December, and the CB's index of consumer confidence rose to a six-month high 131.6 in January. In line with our projections, the full year GDP growth was confirmed at 2.3% for 2019, with our 2020 forecast stable at 1.8% as a solid underlying trend in consumption is expected to more than offset soft investment prospects.

Euro area: Real Q4 GDP growth grew by a lower-than-expected 0.1%QoQ amid surprise contractions in Italy and France. Domestic demand has likely been relatively soft, with the weakness partly offset by higher external demand in Italy and Spain. Flat January Composite PMIs suggest that the economy failed to a pick up growth momentum at the start of the year, while most business surveys point to a modest quarterly growth of c. 0.1-0.2%QoQ in Q1. The balance of risks is skewed to the downside, with the new coronavirus potentially constituting a big challenge to Euro area's economic expansion. We expect real GDP growth to hover around 1.0% in 2020 from 1.2% in 2019, as fixed investment will likely lose steam amid increased pressure on corporate profitability.

Periphery: The 2020 economic growth outlook for both Spain and Italy, the two biggest southern European peripheral economies, does not look so promising. Spain is projected to remain on a growth moderating path for the fifth year in a row mainly due to slower domestic demand, while the formation of the PSOE-Unidas Podemos minority coalition government with the support from regional parties including Catalan pro-independence Esquerra Republicana de Catalunya (ERC) has raised questions over its longevity. Meanwhile, although recession risks for Italy have been reduced, anemic economic growth is likely to continue this year on the back of weak external demand and lackluster investment activity.

Emerging Economies

BRICs: While **Brazil**'s 2019 full year economic growth print is expected at 1.1%, the central bank raised its 2020 GDP growth forecast to 2.2% in its quarterly inflation report released in late December from 1.8% previously, underlining, however, that the upward revision depends on ongoing economic reforms. **In Russia**, GDP grew by 1.7% YoY in Q3 2019, the same as in the previous quarter, setting the ground for FY rate of 1.3%, given that hard data released by now point to a loss of momentum in the economy. Economic growth is expected to pick up to 1.7% in 2020. Regarding **India**, the IMF released its Article IV consultation in late December underlining that despite the slowdown in 2019, the economy can be back on track and regain economic growth rates close to 7% by 2022, under the condition that the government coalition that recently renewed its term will implement an ambitious reform agenda. **China** is struggling with the outbreak of the Coronavirus since the beginning of 2020. While the drawback in the economy is inevitable, at least for Q12020, the policy measures already adopted and those to come will provide the economy with a needed time buffer until the virus outbreak is contained

CESEE: The coronavirus epidemic adds to the more challenging world environment the region is confronted with. Although the impact on CESEE appears to be limited so far, markets are anxious. The direct impact can come through the channels of trade, investment and tourism. The indirect can come through the region's integration into the supply chains of Germany and a more pronounced impact on world economic growth. Ceteris paribus, our baseline view on the 2020 prospects remains unchanged for the time being. In 2020, the CESEE region will continue expanding at a more moderate pace than in previous years in response primarily to rising external and internal headwinds. Having passed their cyclical peak, GDP growth dynamics in the regional economies are expected to slow down further in most cases due to weaker net exports and domestic demand dynamics.

Special Topic

Coronavirus outbreak rattles global equities and oil market, mounting fears about the global economic repercussions

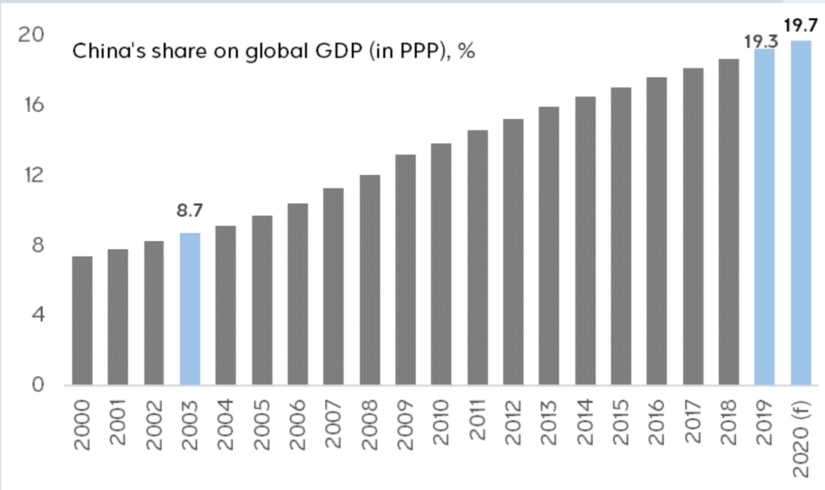
Coronavirus, the deadly new virus that was first detected in the Chinese city of Wuhan in December 2019 continues to spread at a fast pace. So far, the World Health Organization (WHO) has reported more than 20,000 confirmed cases across China and 427 deaths while around 18 countries in the Asia-Pacific region, Europe, North America and the Middle East have confirmed new cases. The coronavirus outbreak was formally declared by the WHO as a “public health emergency of international concern” on the view that it could spread to countries where health care systems are not prepared to deal with it. Fears and uncertainty about the coronavirus outbreak have rattled global equity markets, industrial metals and oil prices since mid-January when media reports started tracking the new virus. Indicatively, following a short-lived spike close to $72/barrel in mid-January on heightened geopolitical woes, Brent crude has embarked on a declining trend since 20 January marking a more than one-year low of $53.95 per barrel on 4 February, some 17% lower so far this year, amid concerns over lower jet fuel demand and an expected slowdown in oil demand from China, the world’s larger oil importer.

The coronavirus outbreak reminded investors the global economic costs of the SARS epidemic in 2002-2003. But using the SARS virus as a reference case for gauging the potential impact of the coronavirus on the Chinese and the global economy may be misleading for a number of reasons. The new virus has a lower mortality rate compared to SARS (c. 30% vs. c. 10%) but has a longer incubation period and spreads at a faster pace, especially as the outbreak has coincided with Chinese New Year when travelling is at a peak, making contagion more likely (the SARS virus continued to spread in the first 3-4 months of 2003 before it got under control). In addition, compared to 2003, the Chinese authorities responded faster to reduce the speed and extent of transmission compared to the SARS epidemic, imposing a number of drastic measures, ranging from travel bans and extension of the national Lunar New Year holidays to factory suspension, cancellation of major events across the mainland and body temperature scanning at airports. Moreover, the new virus hit the Chinese economy at a time when the economy is quite fragile mainly due to the US/China trade dispute. With respect to the potential side effects to the world economy, China is now a much bigger driver of global growth. According to the IMF, the share of China’s global GDP was around 9% in 2003 in PPP-adjusted terms and more than double in 2019 at around 19% (Figure 3). In addition, the global economy is now much more integrated than it was in 2003.

Using as a reference case the epidemic of the 2003 SARS, the tourism sector, retail sales, catering services and transportation are likely to be the most affected sectors in China, while industrial production and trade could also be hit due to the extension of the Lunar New Year holidays. But the impact could be transitory and concentrated in Q1 2020 if the coronavirus is effectively controlled within the next few weeks. In addition, some of the negative impact on the economy could be offset to a certain degree by policy stimulus from Chinese authorities to contain the economic fallout of the epidemic, including for instance, more accommodative monetary policy, more fiscal support for infrastructure investment (as was the case back in 2003) and tax reductions for the most affected sectors. From a global perspective, the impact will be: i) direct, via China's contribution to world GDP, mainly through trade and tourism, and (ii) indirect, via the spillover effects to other countries, the increased volatility in certain asset markets and the negative effect on consumer and business sentiment.

A key factor that will determine the 2020 global impact will be the severity and duration of the disruption to Chinese economic activity, whether the global economy will get back onto a recovery path soon (within the next 1-2 months) and whether we experience a stronger rebound in economic activity in subsequent quarters when the virus will have come under control. A hit to the Chinese economy at least in Q1 2020 seems inevitable at this stage. But, we have to wait until the full intensity of the virus outbreak is known to evaluate how big the hit will be and how long it will last to gauge the full impact on the Chinese and the global economy.

Figure 3: China is now a much bigger driver of global growth



Source: IMF, Eurobank Research

Global Macro Themes & Implications

The UK left the EU but Brexit-related uncertainty continues

After a 47-year EU membership, the UK formally left the EU at 11:00PM local time on 31 January, following the ratification of the Withdrawal Agreement that was sealed in October 2019 by both the UK and the EU. In line with the terms of the above agreement, the UK entered as of 1 February a transition period set to last until 31 December 2020 (unless the two sides agree by 1 July 2020 for an extension of up to 2 years) during which very little will actually change for the UK. More specifically, the UK will be allowed to maintain privileges and obligations as if it were an EU member state (such as the single market, customs union access, and the four freedoms of movement: goods, services, people and capital) but will lose representation (and voting rights) in European institutions (such as the European Parliament, the EU Council and the Commission). During that period, the two sides will begin negotiating a full free trade agreement with a view to reaching a timely, comprehensive agreement on their long-term economic relationship that will include trade in both goods and services.

UK PM Boris Johnson has repeatedly made clear that his government does not intend to extend the transition period beyond 31 December 2020. Official talks are scheduled to start on 3 March 2020 and, according to the EU, an agreement should be sealed by 26 November 2020 in order for it to be fully ratified by the end of the year. However, finalizing and ratifying a comprehensive trade deal within the incredibly tight timeframe of 9 months seems highly ambitious. As was demonstrated recently in the rhetoric of UK PM Boris Johnson and EU Chief Brexit negotiator Michel Barnier, the two sides have contrasting positions on key issues. Indicatively, the EU has emphasized the need for level-playing field commitments (no state aid, no significant corporate tax cuts, environmental standards, and workers' rights) as a precondition for no tariffs or quantitative restrictions along with customs and services trade facilitation. However, the UK has underlined its desire for regulatory autonomy aiming for a Canada-style free trade agreement that would allow it to not comply with EU standards on "competition policy, subsidies, social protection, the environment or anything similar". To that end, the UK PM threatened that, if such a trade agreement is not feasible, the UK could revert to a relationship with the EU like that of Australia's - essentially trading on WTO rules - indicating that his government is preparing the country to incur any economic cost rather than become a rule-taker. Not surprisingly, trade negotiations typically take a number of years to be reached (the EU-Canada free trade agreement took five years to be negotiated and a further three years to be approved).

Overall, EU/UK trade negotiations are not going to be easy, and the threat of no-trade deal at the end of the year with negative repercussions for business sentiment and economic activity is not negligible, unless the two sides reach a permanent trade agreement or agree by 1 July 2020 to extend the transition period.

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Macro Themes & Implications in CESEE

The growth resilience of these economies' will be tested against a more challenging international economic environment in 2020. The outbreak of coronavirus can only make things more difficult

As we have already entered the second month of 2020, it becomes more and more apparent that it will not be an easy year for EMs. Weaker global trade flows, fears of a US recession, a weaker growth outlook for advanced economies, tighter liquidity conditions, are only a few of the concerns for EMs. In addition, the potential negative spillovers on Chinese imports from other EMs stemming from the Phase I trade deal requirements between US-China have complicated things further. On top of everything else, the outbreak and spread of the coronavirus has become the first topic in the economic agenda in the past days. The announcement of the deaths and the spread of the virus beyond China has panicked investors and prompted many governments to adopt restrictive measures to contain it.

If the virus remains contained, the impact on the world economy should be relatively muted. Having said that, the impact will also depend on how soon the peak of the epidemic is reached. In any case, it is highly likely that the coronavirus can disrupt the supply-chains or, in the best case scenario, increase production costs. Firstly, the pressure on global trade flows is expected to intensify as a result of the measures against the transmission of the coronavirus. Secondly, if the Chinese factories remain closed for a prolonged period, unable to deliver on their orders that would force their customers to turn to more expensive substitutes.

Although the impact on CESEE appears to be limited so far, markets are anxious. The direct impact can come through the channels of trade, investment and tourism. The indirect can come through the region's integration into the supply chains of Germany and a more pronounced impact on world economic growth. Furthermore, to the extent that Chinese authorities need to change their FDI priorities, the economies that are more dependent on it could suffer significantly. The similar, previous experience with SARS proved that the most vulnerable sector is tourism. Even though in most regional economies the percentage of incoming Chinese tourists is single-digit, their spending is above average. In the case of prolonged Chinese travel restrictions, a number of economies are going to feel the heat this year. On the other hand, the region as a whole could benefit from lower commodity prices. The decline in oil demand from China in particular has pushed prices by ca. 20% lower in one month supporting the disposable income.

In any case, the coronavirus epidemic adds to the more challenging world environment the region is confronted with. Ceteris paribus, our baseline view on the 2020 prospects remains unchanged for the time being. The CESEE region will continue expanding at a more moderate pace than in previous years in response primarily to rising external and internal headwinds. Having passed their cyclical peak, GDP growth dynamics in the regional economies are expected to slow down further in most cases due to weaker net exports and domestic demand dynamics. Net exports are expected to come under more pressure in a less friendly global economic environment due to persisting trade tensions. At the same time, domestic demand will remain the key source of growth. However, it is not expected to make a higher contribution, as households' and corporates' incomes growth decelerates, and the room for domestic fiscal & monetary policy responses becomes more limited.

Although each case is different and uncertainties remain high, improved EU funds absorption – a pivotal factor behind public investment if used wisely – coupled with healthy credit expansion can make a positive difference in each individual country's output performance next year. With the end of the programming period 2014-2020 approaching, governments will eventually have to step up spending for a number of mature projects.

From a geographical point of view, having led the pack in the broader CESEE group in the past year, CEE-4 economies (Czechia – Hungary – Poland – Slovakia) are expected to slow more visibly in 2020. Those economies, which specialize in the automotive industry are expected to feel the pain of intensifying trade protectionism this year. In addition, the slowdown for the SEE (Bulgaria – Serbia – Romania – Turkey) economies who were already lagging behind in the previous year, is expected to be less profound as this group of economies is more heterogeneous and less correlated with the performance of the Euroarea.

CESEE Markets Developments & Outlook

Bulgaria

Bulgarian Eurobond yields had a mixed month, with the short end of the curve experiencing yield drops of 1-2 bps, mid-curve tenors such as 2027 and 2028 remaining unchanged and the longest maturity, namely the 2035 paper saw its yield sliding by 5 bps. Local papers also remained largely unchanged, with all short and mid maturities seeing modest yield gains of 2-4 bps. On the other hand, the 10 and 25 year yields, dropped by 5 bps respectively. The Ministry of Finance held an auction at the beginning of January, offering €100m of the 10 year BGN government bond issue at 0.13%. Despite the record low yield, local market investors, such as banks and various pension funds showed keen interest, which resulted In the issue being oversubscribed by 2.3 times.

Serbia

The last days of January the dinar appeared slightly weaker on the back of seasonal demand and stronger presence of corporate clients on the bid, especially gas and oil companies. Despite the strong demand, the dinar lost only a small fraction of its value throughout the first month of the year, trading just 0.02% weaker, at 117.60.

At the time of writing, it is hard to predict whether the National Bank of Serbia (NBS) has specific levels that is willing to defend since the reporting regarding interventions in the FX market has recently changed. Instead of making daily announcements about interventions, the NBS will now focus on delivering the total amount on a monthly basis through its regular FX reserves report. Going forward, we expect demand to wane in February and the dinar to get back trading around 117.50.

The announcement of the possible inclusion of government bonds into the JP Morgan emerging market index (GBI-EM) has already shown positive signs on the appetite for government financing. Serbia auctioned the EUR denominated 20Y bond, selling bonds of €150mn at a yield of 3.0%. Comparatively, Serbia had issued EUR denominated bonds with the maturity of 15 years and a 3.6% yield in the past. Moreover, RSD denominated bonds with 5y tenor were oversubscribed reaching again record low yield at 2.6%, 10 basis points lower compared to the secondary market prices at the time of announcement.

As we had already said in our previous analysis, it is very likely that we see a bit stronger decline in the short end of the curve compared to the longer end but overall, much less movement compared to 2019 when yield shifted downside for 200bps throughout the whole curve.

Markets View

Foreign Exchange

EURUSD: The pair remains within its recent range, having only a short break below 1.1050. The technical picture as well as the consensus for "stronger EURUSD" trade seems to be breaking down on the back of the coronavirus developments, a dovish Fed and strong ISM number from the US. The 1.1116 level is now the first resistance with the 1.10 level being the support. Should the 1.10 level give way, the next level to watch is 1.09.

GBPUSD: The GBP traded in the 1.30-1.32 range making a high of 1.3215 on the back of Brexit day and a "no cut" from the BoE, against market expectations, but the gains were quickly wiped out following "tough talk" on the upcoming trade negotiations. The 1.29 and 1.28 are key support levels and below that 1.26 will become a major target. On the upside a close above 1.32 is required to negate the recent reversal.

USDJPY: JPY is trying to finally act as the traditional safe haven on the back of the coronavirus risk off market action. The pair reversed from a high of 110.29 to a low of 108.31 and remains in the range of the past few months. The 109 level is a key resistance now and 107.50 an important support. It all depends on how the virus headlines come out.

Rates

EU: One way street for EU yields since mid-January due to a combination of risk off (core bonds) and positive news from the periphery (Italy's political uncertainty subsided post local election results, Greece was upgraded to BB+ and positive outlook by Fitch). Bunds traded from a high of -0.15% to a low of -0.44% as European stocks dipped and general risk off sentiment prevailed. The technical picture has reversed and yields are expected to be under pressure in the near term as the coronavirus story unfolds.

US: Similarly to the EU yields, US yields collapsed by 30bps to reach a low of 1.51% before reversing mildly. The technical picture points to lower yields in the medium term and a potential retest of the Sep19 (1.42%) and Jul16 (1.31%) lows is possible. The 3m/10yr curve is again inverted at -1.7bps, after spending the last four months on positive territory

Emerging Markets credit

EM credit after a positive start to the year followed the repricing of all asset classes on the back of the coronavirus outbreak. The JPM EMBI+ Sovereign index widened by 25bps since mid-January to 323bps before taking back some of that widening to trade at 314, all driven by the virus news and the impact this might have on Chinese growth. LatAM was the big underperformer with EMEA and surprisingly Asia faring much better. We consider any further widening a buying opportunity for EM credit spreads, but expect volatility in the short term.

Corporate credit

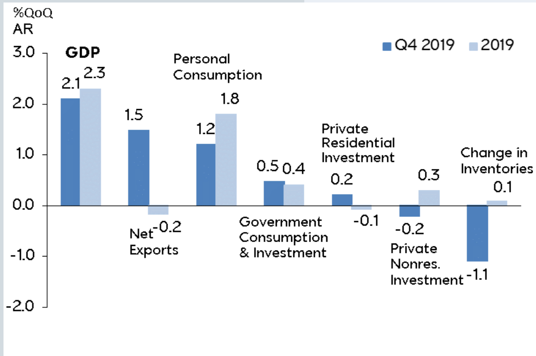
Investment grade credit saw minor widening and if we factor in the significant supply from the primary market overall the move was insignificant. Notable is though the underperformance of US IG versus EU, given the latter's support by the ECB, that widened 3bps more one an index level. High Yield on the other hand had a more significant reaction to the coronavirus and the collapse of oil prices (US HY). US HY underperformed EU HY (+50bps vs +30bps), as the former is heavily weighted on oil related companies. Financials held well under the circumstances. HY at current levels looks much more attractive and as with EM credit we consider any significant widening an opportunity to buy credit spreads. From current rates levels it is difficult to see IG posting positive total returns for the year.

US

Domestic demand softened in Q4, but the underlying trend in consumption remains solid

Real GDP advanced by 2.1%QoQ saar in Q4, with private consumption increasing by a softer-than-expected 1.8%QoQ after strong growth rates in the prior two quarters. Business investment fell for the third consecutive quarter (-1.5%QoQ), subtracting 0.2pp from overall growth, while net exports contributed a robust 1.5pp, which was however partly offset by a 1.1pp drag from inventories. In spite of weak October and November retail sales readings, the personal consumption outlook looks rather positive starting 2020 as core retails sales rebounded strongly in December, and the CB's index of consumer confidence rose to 131.6 in January on the back of a broad-based improvement in the present situation and short-term expectations indices. In line with our projections, the full year GDP growth was confirmed at 2.3% for 2019, with our 2020 forecast stable at 1.8% as a solid underlying trend in consumption is expected to more than offset soft investment prospects.

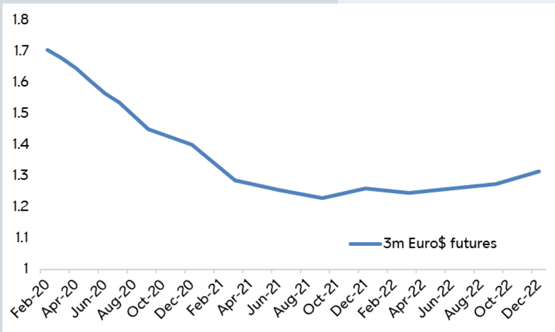
Figure 4: Contributions to real GDP growth



Source: BEA, Eurobank Research

The FOMC held the target range for the fed funds rate steady at 1.50-1.75% at its January meeting, making only a technical adjustment to the interest rate on excess reserves (+5bps to 1.60%) to ensure that the fed funds rate hovers within the Fed's target range. There were only minimal changes to the policy statement, with private consumption now growing "at a moderate pace" (vs. "a strong pace" previously), likely mirroring some softening in Q4 retail sales relative to the two previous quarters. Furthermore, the FOMC altered its language so as to point out that the stance of the monetary policy is appropriate to support inflation "returning to" the symmetric 2.0% goal (vs. "near" the symmetric 2.0% goal previously), with Chairman Powel clarifying that this change was made to avoid any misinterpretation that the committee was comfortable with persistently below target inflation. We continue to expect no change in monetary policy throughout 2020 unless there is a "material reassessment" to the outlook. The Fed's shift in inflation language could mean that the hurdle for rate hikes is higher than that for insurance cuts later in the year or in 2021 barring any considerable improvement in inflation dynamics from current levels, given that coronavirus is a new downside risk to the growth outlook.

Figure 5: Futures market currently prices in ca. 0.3bp rate cuts in 2019

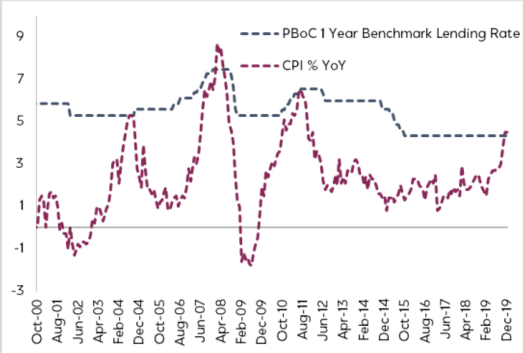


Source: Bloomberg, Eurobank Research

China

More policy easing to address the coronavirus outbreak

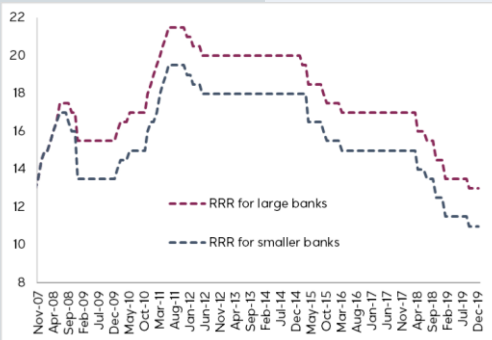
Figure 6: Surging inflation leaves little room for further monetary easing



Source: Bloomberg, Eurobank Research

GDP Coronavirus (2019-nCoV) was first detected in December 2019 in Wuhan, the capital of the Hubei province, located at the mainland of China and counting ca 58mn citizens. As of February 3, 20,438 coronavirus cases have been confirmed while the death toll has risen to 425 people. Although the growth rate of new infections appears to be slowing down, the number of confirmed cases continues to increase spreading global fear and uncertainty. In order for analysts to predict the economic repercussions of the outbreak, they compare the current situation with the 2003 outbreak of the SARS virus. While the cases have many similarities such as the fact that both viruses belong to the same coronavirus family and that both outbreaks originated from China, the comparison has visible limitations that lead to equivalent conclusions. From an epidemiological point of view, the SARS virus outbreak counted sizably less infections (8,422 people) but had a higher mortality rate, close to 10% while the 2019-nCoV spreads out significantly easier but so far comes with a lower death rate, close to 2%. At the time of the previous hit, back in 2003, GDP in the respective quarter of the outbreak shrunk by 1.2% YoY. The impact this time is harder to define but we expect that it will be primarily channelled via the services and retail sales sectors. That said, we consider among the key determinants the growing portion that services - including tourism – currently hold in the Chinese GDP (ca 52% in 2018 from ca 40% in 2003) that will lead to a more sluggish recovery even after the epidemic is contained. In economic policy terms, the reflexes of the Chinese authorities can be considered quick as they rushed to declare supportive measures prior to the markets opening on February 3, after the extended New Lunar Year Holiday. Still, Chinese stock markets were on a sell-off on Monday. Nevertheless, on February 1, 30 measures had been announced by several ministries, regulators and the PBoC. Among these measures, the gross liquidity injection of CNY1.2tn via reverse repos stands out, reduced to CNY150bn on a net basis, taking into account the amount of CNY1.05tr maturing facilities during the Lunar Year Holiday. Concluding, it appears unlikely that policy easing will completely offset the impact of the coronavirus outbreak, at least for Q1-2020, but it can provide the economy with a needed time buffer until the virus outbreak is contained.

Figure 7: RRRs in a downward path



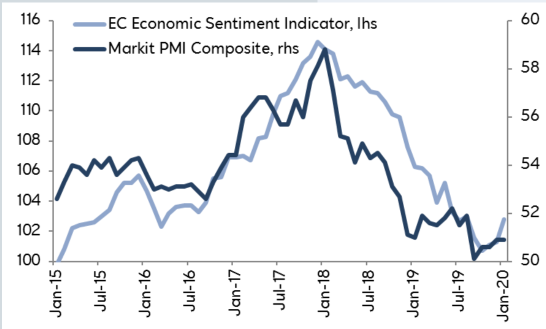
Source: Bloomberg, Eurobank Research

Euro area

GDP barely expanded at year-end, but tentative signs of stabilization appear

Real Q4 GDP growth grew by a lower-than-expected 0.1%QoQ, down from 0.3%QoQ in Q3, amid unexpected contractions in Italy and France (partly related to temporary factors). Based on national accounts data already published (as the contribution of the components is not yet released), it seems that domestic demand has been relatively soft, with the weakness partly offset by higher external demand in Italy and Spain. Flat January PMIs suggest that the pace of economic growth failed to a pick up at the start of the year, with the manufacturing index continuing to contract in January (albeit at the slowest rate since April 2019) and the services index increasing at a slightly weaker pace than in December 2019 (-0.6pts to 52.2). Latest business surveys point to a modest quarterly growth of c. 0.1-0.2%QoQ in Q1, with an easing pace of contraction in industrial output. The balance of risks seem skewed to the downside, with the new coronavirus potentially constituting a big challenge to the tentative improvement. We expect real GDP growth to hover around 1.0% in 2020 from 1.2% in 2019, as fixed investment will likely lose steam amid increased pressure on corporate profitability.

Figure 8: Leading indicators seem to have bottomed out



Source: IHS Markit, Bloomberg, Eurobank Research

As widely expected, the ECB maintained its monetary policy stance unchanged at its January meeting, keeping the depo rate at -0.5% and the APP at €20bn per month. With the balance of risks to growth still skewed to the downside, ECB President Christine Lagarde reiterated the need for a highly accommodative stance given the weak growth and inflation outlook, using though a slightly more positive language on underlying inflation. Risks surrounding international trade have been less pronounced since December, while President Lagarde did not seem worried about a deterioration of EU/US trade relations given the ongoing dialogue between the two sides. Moreover, the terms of the strategic review were announced, focusing on the definition of the primary objective of price stability and how to achieve it. The review will also focus, among others, on the effectiveness and potential side effects of its monetary policy toolkit (countermeasures, potential policy reversal), as well as covering issues like communication practices, employment, financial stability and climate change (environmental sustainability). Our view for unchanged monetary policy throughout 2020 remains intact, given the stabilization of growth indicators and the uptick in underlying inflation.

Figure 9: Consumer price pressures and inflation expectations gradually picking up

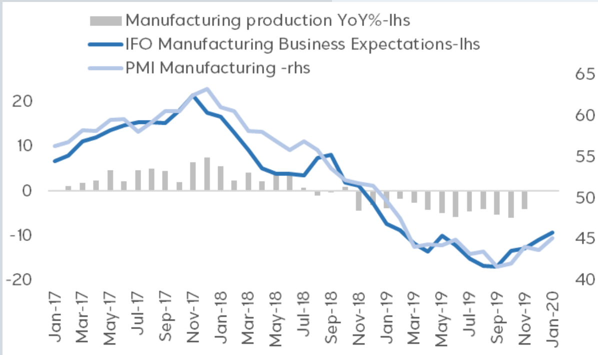
Source: Bloomberg, Eurobank Research

Germany

Manufacturing downturn probably close to bottoming out

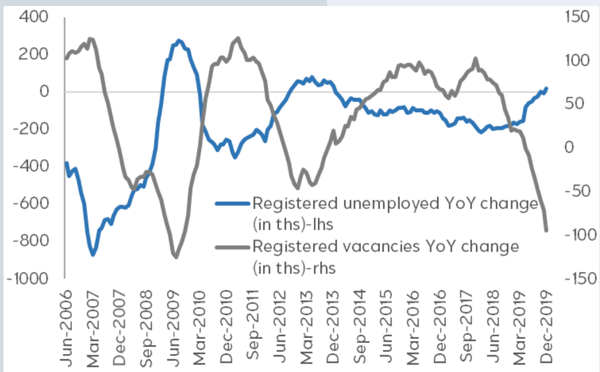
After being mired into recession since 2018 mainly due to the US/China trade dispute, no-deal Brexit fears and structural issues such as the technological shift in car manufacturing, recent survey-based leading indicators suggest that German manufacturing activity — the epicenter of Germany's sharp economic growth slowdown — is probably close to bottoming out Figure 10). PMI manufacturing advanced to a 12-month high of 45.2 in January following a multi-year trough of 42.1 in October 2019, partly due to a four-month improving streak in new orders, pointing to ongoing but milder contraction. Along these lines, Ifo business expectations among manufacturers rose in January for the fourth month in a row to one year highs (-9.2) after advancing by almost 8pts cumulatively over the last four months. However, prevailing US/China trade uncertainty, concerns about the likely imposition of US tariff hikes on European cars, low levels of new manufacturing orders and still elevated inventories suggest that industrial activity will likely stabilize at current low levels rather than embark on a gradual improving trend in the coming months. Meanwhile, the service sector continues to hold up well favored by the still resilient labor market and, although the pace of decline in unemployment has flattened out, the unemployment rate is standing at a record low of 4.8% (Figure 11). In addition, the continued solid wage growth (gross wage growth at 3.6%YoY in Q3 2019) and the high savings rate (10.9% in Q3 2019) should continue to support household consumption. However, there is reason for some cautious optimism after the Ifo business climate for the German economy as a whole unexpectedly fell in January (to 95.9 from 96.3), mainly on the back of a decrease in confidence in sectors driven by internal demand including retail sales, construction and services. The IFO institute expects German Q1 2020 GDP growth to expand by a meagre 0.2%QoQ after a "slight recovery" in Q4 2019 (Q4 2019 GDP official results will be published on 14 February). For the full year we expect a modest acceleration to a still below potential growth rate of 0.8% from 0.6% in 2019 on the assumption of fading trade tensions.

Figure 10: Manufacturing downturn probably close to bottoming out



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

Figure 11: The pace of decline in unemployment has flattened out lately



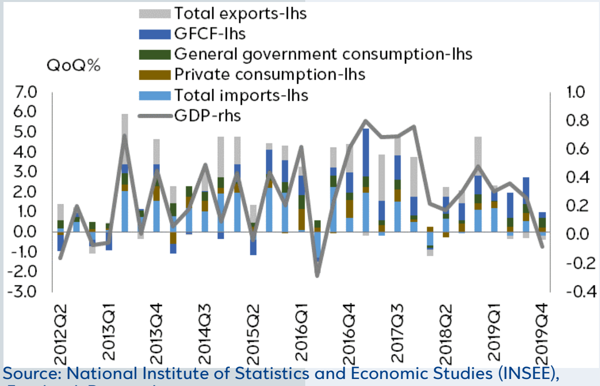
Source: Federal Statistical Office (Destatis), Eurobank Research

France

Reaction to pension reforms took their toll on Q4 GDP growth

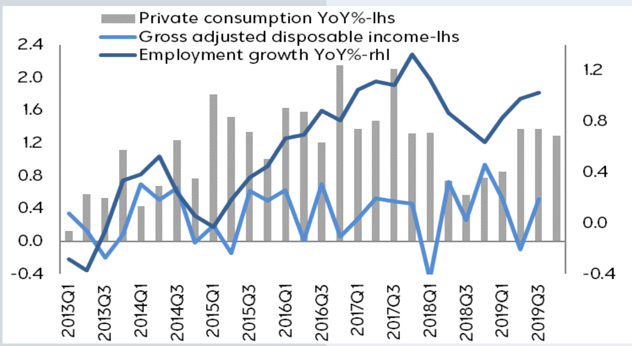
France's flash Q4 2019 GDP surprised negatively, shrinking by 0.1%QoQ (+0.8%YoY), the first negative growth rate since Q2 2016, compared to an average of 0.3%QoQ (1.4%YoY) in the first three quarters of 2019 (Figure 12). Private consumption grew by 0.2%QoQ, down from 0.4%QoQ in Q3, mainly due to services and in particular transport services that were affected by social movements. Government consumption grew by 0.5%QoQ, slightly higher from 0.4%QoQ in Q3, while investment grew by 0.3%QoQ, meaningfully lower compared to 1.3%QoQ in Q3. As a result, final domestic demand contributed a modest 0.3pp to Q4 GDP growth, less than half compared to 0.7pp in Q3 and an average of 0.5pp in Q1-Q3. Imports declined by 0.2%QoQ after growing by 0.6%QoQ in Q3, while exports also dropped by 0.2%QoQ, contracting for the third consecutive quarter. As a result, foreign trade balance had a zero contribution, while the change in inventories was a drag on GDP growth for the third consecutive quarter, subtracting 0.4pp after 0.1pp and 0.2pp in Q3 and Q2, respectively. For 2019 as a whole, the French economy slowed to 1.2% from 1.7% in 2018. Final domestic demand contributed 1.9pp (private consumption 1.1pp & investment 0.8pp), foreign trade -0.6pp and the change in inventories -0.4pp. Looking ahead, we are optimistic for GDP growth to return into positive territory in Q1 2020. The strikes against the proposed pension reform, especially on transport services, have decreased significantly after Prime Minister Edouard Philippe announced the government's willingness to withdraw a contested clause on raising the retirement age by two years to 64. Encouragingly, the INSEE consumer confidence index improved to 104 in January from December's five-month low of 102. Against this background, we expect private consumption, France's main growth driver, to gain momentum in the coming months, also favored by the 2020 sizable fiscal stimulus worth 0.7%-of-GDP, subdued inflation pressures and positive labor market fundamentals (Figure 13). But downside risks prevail including persisting social movements against pension reforms and external headwinds including the coronavirus outbreak, renewed US tariff threats and a no-trade deal Brexit.

Figure 12: Persisting strikes took their toll on Q4 GDP growth



Source: National Institute of Statistics and Economic Studies (INSEE), Eurobank Research

Figure 13: Positive labor market fundamentals and sizable fiscal stimulus bode well for private consumption



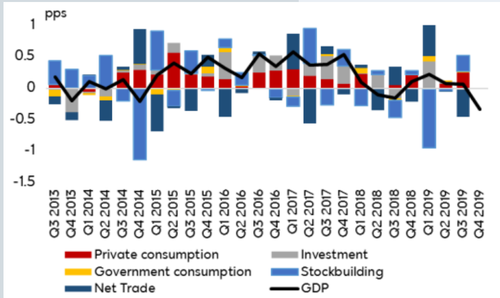
Source: National Institute of Statistics and Economic Studies (INSEE), Eurobank Research

Italy

Real GDP growth turns negative at the end of 2019; Local elections ease risks of a government crisis

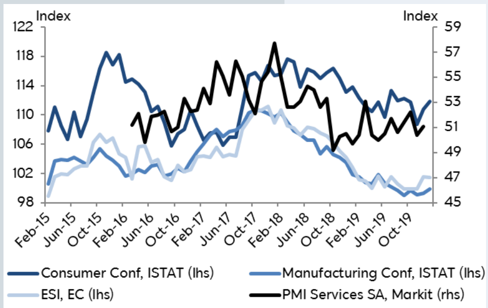
According to Istat's preliminary estimate, real GDP growth contracted by 0.3%QoQ in Q4 2019, following an average growth rate of 0.1%QoQ in the prior three quarters. Domestic demand was a drag on overall growth, while net exports made a positive contribution mirroring a modest increase in exports coupled with a notable decline in imports. The manufacturing recession has probably deepened at the end of 2019, as Istat noted that there was a significant contraction of value added in the agricultural sector and industry (including construction). Although the manufacturing sector remained in contractionary territory at the start of 2020, there were signs of stabilization as was evident in the IHS Markit manufacturing survey. The respective index increased by 2.7pts to 48.9 in January, with demand conditions showing signs of improvement and business confidence hitting a 20-month high. In the Italian services sector, the stabilization of the PMI at 51.2 on average in Q4 2019 is in line with a continued -albeit moderate- pace of expansion. Overall, we have updated downwards our real GDP growth projection to 0.3% for 2020 from 0.2% in 2019, given that the latest GDP data have surprised to the downside and the prolonged weakness in the industrial sector coupled with a stagnant services activity do not bode well for a strong economic recovery.

Figure 14: Italy contributions to quarterly GDP growth



Source: Refinitiv Datastream, Eurobank Research

Figure 15: Leading indicators provide tentative signs of stabilization



Source: Sondaggi Demopolis, EMG, Ipsos, Ixe, IZI, Noto, Piepoli, SWG, Tecne, Eurobank Research

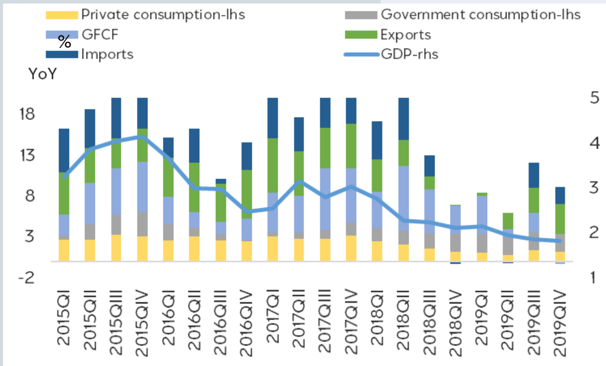
On the political front, the results of the 26 January regional election in Emilia-Romagna, one of Italy's largest regions and a traditional left-wing stronghold, are of vital importance for the longevity of the PD-5SM ruling coalition. Bonaccini, the center-left candidate, secured the region's leadership with 51.4% of the vote while Borgonzoni, the right wing candidate, secured 43.7% of the vote. The centre-left victory may ease political pressure in the short-term, pushing back the risks of an early general election. However, looking further ahead, political uncertainty could remain elevated given that more regional elections will be held in May/June as well as a constitutional referendum for which the date has not been set yet. Adding to the above, the Five-Star Movement's political reshuffle "post-Di Maio" could also be considered as a source of uncertainty in case the two coalition partners are unable to find common ground after the 5SM's new leadership election at its party congress in March.

Spain

Economic activity continues to moderate

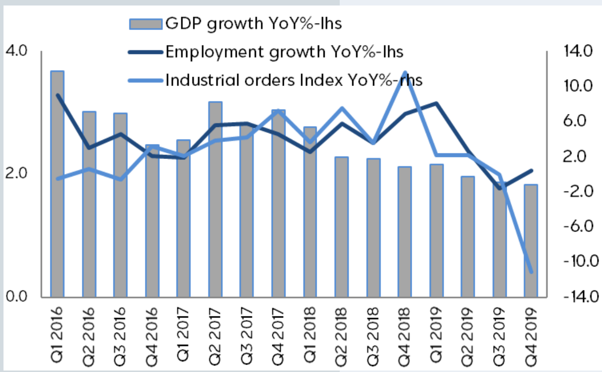
The Spanish economy continued to moderate in Q4 2019 with GDP growing by 1.8%YoY (0.5%QoQ), the lowest pace since Q3 2014, down from 1.9%YoY in Q3 and a 2.1% average in H1 2019, on the back of a slowdown in domestic demand. Private consumption growth eased to 1.2%YoY in Q4 from 1.4%YoY in Q3, taking the 2019 average to a multi-year low of 1.1%YoY from 1.6%YoY in 2018 and a 2.5%YoY average in the last five years. The sharp decline in household consumption is mainly attributed to: (i) prolonged political uncertainty as Spain went through four general elections in the last four years; (ii) increased households' savings rates (6.8% Q1-Q3 2019 average, up from 5.9% in 2018 and 6.4% average in the last five years), probably reflecting precautionary motives against a more challenging external environment and prolonged domestic political uncertainty; and (iii) a slowdown in employment growth, potentially as a result of the global downturn and the 22% increase in the minimum wage introduced in January 2019, the largest in more than 40 years, which has pushed wage growth to 2.0%YoY from 1.6% in 2018 (Figure 16). The slowdown in domestic demand also came from investment, with GFCF contracting in Q4 for the first time in six years (-0.3%YoY vs. 2.4%YoY in Q3 and 2.8%YoY H1 2019 average) while industrial orders point to further sluggishness ahead (Figure 17). On a positive tone, exports grew at a solid pace in Q4 (3.7%YoY) well above that of imports (2.1%YoY) reflecting subdued domestic demand. Looking ahead, we expect private consumption to recover slightly this year mainly due to a more stable political situation as the socialist party PSOE managed to form a coalition government with left-wing Podemos in early January, the first coalition government since Spain's democratic transition in the 1970s. However, on the investment front, persisting external headwinds related to the US/China trade dispute and Brexit negotiations point to continuing sluggishness in the period ahead. We expect Spain's GDP growth to continue to moderate in 2020 for the fifth consecutive year to 1.7%, although still above the expected Euro area average.

Figure 16: Economic activity continues to moderate



Source: National Statistics Institute (INE), Eurobank Research

Figure 17: Employment growth is cooling down and industrial orders point to further sluggishness in investment



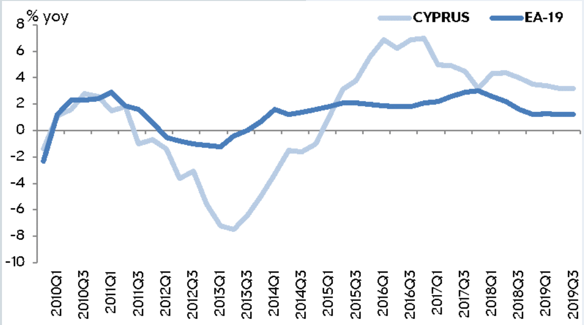
Source: National Statistics Institute (INE), Eurobank Research

Cyprus

Cyprus tapped international markets with two new bond issuances

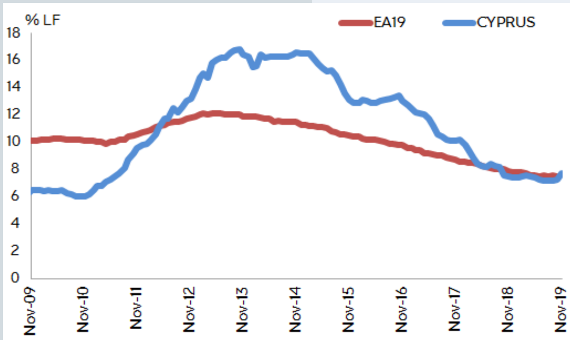
In late January, the Public Debt Management Office (PDMO) sold a combined amount of €1.75bn with a new dual tranche transaction, consisting of a new €1bn 10-year and a new €750mn 20-year bonds whereby, the total gross borrowing needs for 2020 of €1.7bn or 6.5% of projected GDP in 2020 will be covered. The issues was heavily over-subscribed with total bids amounting to over €7.5bn for the 10-year and over €6bn for the 20-year bond. This was the highest order book amount Cyprus ever received since returning to the capital markets in June 2014. The average accepted yields for the 10-year and for the 20-year bonds came at 0.734% and 1.33% respectively. Although this is a new record low in the borrowing costs in the history of the Republic, it would be fair to point out that this is still the third highest in the Euroarea behind Greece and Italy. Looking ahead, the growth trajectory suggests that the soft landing we penciled in all previous analyses is in full force. Real GDP expanded by an expected 3.3% in FY2019 vs. 4.1% in 2018 compared to 4.2% in 2017, 4.8% in 2016 and only 2.0% in 2015. The growth dynamics are expected to remain relatively strong – yet still below 3% for the first time after graduation from the IMF programme – at 2.9% in 2020 driven primarily again by still strong domestic demand dynamics. Final consumption is expected to remain solid underpinned by the rise of disposable incomes, itself driven by improving labor market conditions, sustained sentiment gains and rising public consumption. Investments have so far received strong support from the real estate market recovery, itself supported by a stream of ongoing residential and tourism infrastructure construction projects. The Cyprus investment program has been instrumental in attracting foreign investment in the real estate sector in the form of high-rise residential towers,. Even though the latest high frequency real estate and construction activity indicators are strong, concerns for the future of this activity - stemming from the amendments to the program, which will leadto a decline in applications post May2019 - remain. The external risks stem from the slowing Euro area growth performance, geopolitical and Brexit related uncertainty and the challenges posed for the tourism sector. Internally, the main risk source remains the financial system due to the still large amount of NPEs and high private sector indebtedness.

Figure 18: Cyprus' turn-around growth story has been impressive so far



Source: CYSTAT, Eurostat, Eurobank Research

Figure 19: Unemployment in Cyprus now stands very close to euro area



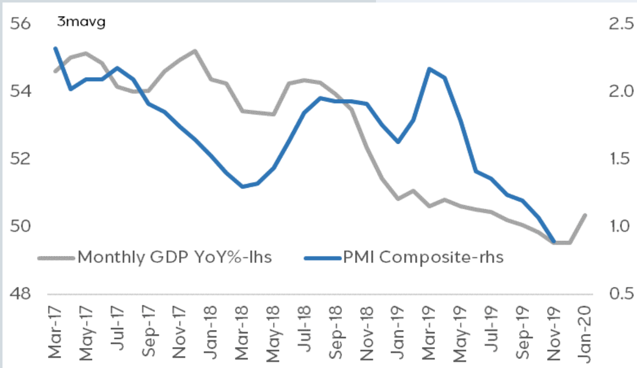
Source: Bloomberg, Eurobank Research

UK

Forward looking post-election indicators bounce, pointing to growth rebound

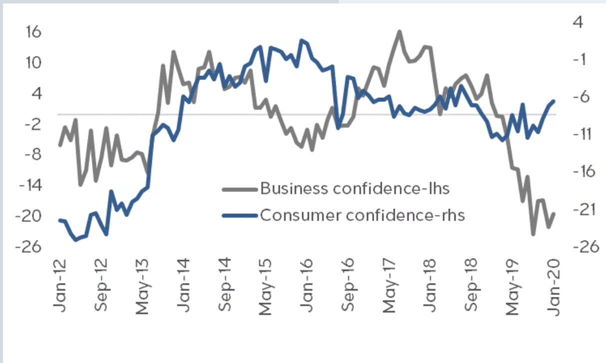
A number of post-election forward looking indicators surprised positively lately, mainly on the back of reduced political uncertainty as the landslide victory of the Conservative Party at the 12 December general election provided some clarity on Brexit that exerted a positive impact on business and consumer spending decisions at the start of this year. Supporting the view of an economic rebound in early 2020, the flash January Composite PMI improved from December's 49.3 to a 16-month high of 52.4, returning above the crucial boom-or bust level of 50 for the first time since August 2019 (Figure 20). The breakdown of the survey was as rosy as the headline, showing solid gains in major sub-components including orders and employment, with the press release from IHS Markit describing this positive development as "a decisive change of direction for the private sector economy at the start of 2020". Service activity rebounded strongly, as the flash PMI jumped to a 16-month high of 52.9 from 50 in the prior month, with business optimism recovering to the highest level in around four years. Meanwhile, the manufacturing PMI advanced from December's 47.5 to 49.8, the highest level since April 2019 albeit still into contractionary territory. In a similar encouraging tone, the CBI's quarterly gauge of manufacturing optimism rose to a near six-year high of +23 in January, the headline business sentiment component of the Q4 2019 CFO survey revealed a 80pts increase (survey carried out between mid-Dec and early Jan), the largest in the 11-year history of the survey and the European Commission's measure of overall economic sentiment recovered in January to five month highs (91.5). The above encouraging surveys created a strong case for the BoE MPC to stay put on rates at the January meeting, in contrast to money markets that were assigning a near even chance of a rate cut. However, with GDP growth continuing to trend below potential in late 2019 and external headwinds prevailing, the prospect of lower BoE rates at future meetings is still on the table, especially if: (i) upcoming hard data fail to deliver on what the recent encouraging surveys have indicated; (ii) sentiment indicators roll off; or (iii) worries over a no trade deal between the UK and the EU intensify.

Figure 20: January's PMIs bounce...



Source: Office for National Statistics (ONS), Bloomberg, Eurobank Research

Figure 21: ...along with the EC's confidence indicators, pointing to growth recovery at the start of 2020



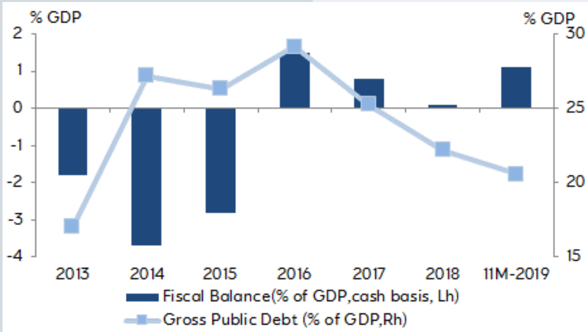
Source: European Commission, Eurobank Research

Bulgaria

Political commitment to the currency board ahead of the ERM II accession

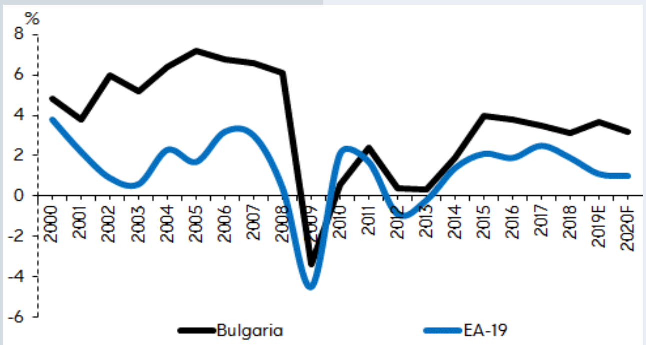
With no major macroeconomic data being released in the past couple of weeks, attention focuses on a streak of officials' statements regarding Bulgaria's application for ERM II entry and the real progress over the accomplishment of the latter national target. In late January, the Bulgarian National Bank's (BNB) Governor, Dimitar Radev stated that the process of Bulgaria's accession to the ERM II and the EU's Banking Union is at the final stage and the last remaining developments will be of major importance for the banking sector in 2020. FiBank and Investbank, which have to strengthen their equity capital before the country is allowed to access the ERM II, will be assessed by the ECB in the next six months. Bulgaria will also join the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) at the same time. However, a couple of days later, the Finance Minister, Mr. Vladislav Goranov, clarified in the parliament that the government will give up the ERM-II entry in case of a change in the EUR/BGN exchange rate which stands at 1.95 since 2005. The statement came in the light of the recent legislative amendments required for the ERM-II accession, according to which the exchange rate could change if other Eurozone member states consider it necessary. The amendments have lured significant public tension amid speculations that the government might aim to give itself room for changing the fixed exchange rate regime. Along these lines, the Ministry of Finance, in order to deflate further the aforementioned speculations, specified that Bulgaria will keep the currency board until the adoption of the euro, implying that there will be no fluctuation of the EUR/BGN exchange rate even once entering the ERM II. It is reminded that the fixed rate of the lev towards the Euro under the currency board is an issue of utmost importance and very sensitive to the society. In brief, in late 1996, Bulgaria was in the midst of a banking crisis and going under a period of hyperinflation. Following at least two failed traditional stabilisation programmes, it became clear that a credible stabilisation attempt would require a visible, rule-based system such as a currency board. In any case, officials outside the country, such as Kristalina Georgieva, Head of the IMF, commented lately that Bulgaria's endeavors to enter ERM-II in the spring and adopt the euro in 2023 are realistic and that the prospects look prominent.

Figure 22: Bulgaria's fiscal position is sound



Source: National Authorities, Eurobank Research

Figure 23: The GDP growth of Bulgaria has been three times higher than Euro area in 2019-2020



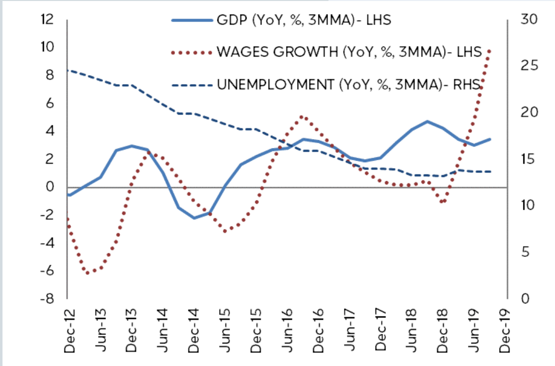
Source: National Authorities, Eurobank Research

Serbia

Positive macroeconomic data make bond issuances more attractive ahead of parliamentary elections

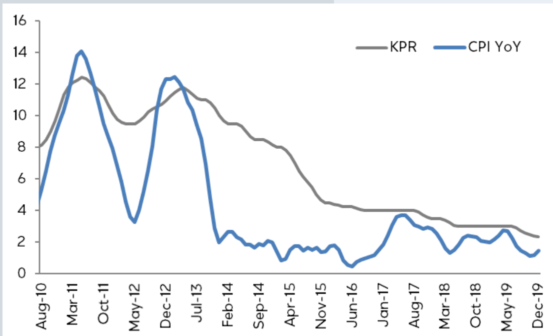
As Serbia is heading for parliamentary elections on April 26, the ruling Serbian Progressive Party (SNS) submitted to the Parliament in late January a bill amending the election law. The new decree foresees a lower parliamentary entry threshold from 5% to 3%. The SNS and its coalition partners have a comfortable majority in Parliament, so the changes will most probably pass. The idea for lowering the threshold has been criticised by the Alliance for Serbia, the major opposition party, however, the changes in the election rules, even that close to the general election, were presented by the SNS leader, Aleksandar Vucic, as an effort towards a more representative political system. The European Parliament (EP) will consider the government's initiative to lower the parliamentary threshold from 5% to 3% but in order for it to reach a decision, a dialogue between the ruling and the opposition parties will begin with the EP acting as a mediator. Once deliberations are complete, the results will be assessed and evaluated. Ahead of the elections, the incumbent government is favored by plethora of positive macroeconomic data; Industrial production expanded by 8.3% YoY in December, recording the highest reading in 2019. Retail sales increased by 13.1% YoY in December, marking the highest rate in 2019, underpinned by an 9.7% wage increase on average throughout the year. Moreover, Serbia closed 2019 with a central government budget surplus of RSD 12.8bn or 0.2% of GDP, instead of an initially targeted deficit of 0.5% of GDP, as agreed with the IMF under the PCI agreement. The streak of favorable data led to a positive momentum for government bonds that the Ministry of Finance took advantage of, so as to proceed with a series of bond issuances in the last month. After launching successfully a EUR 1bn bond in the international markets in the middle of 2019, the Ministry of Finance raised EUR150mn in January with its first 20-year EUR-denominated bond. Prior to that, it proceeded with the issuance of 5-year bonds denominated in Euro and amounting to EUR 12.3bn.

Figure 24: Solid economic growth and labor market



Source: Bloomberg, Eurobank Research

Figure 25: Monetary easing amid subdued inflationary pressures



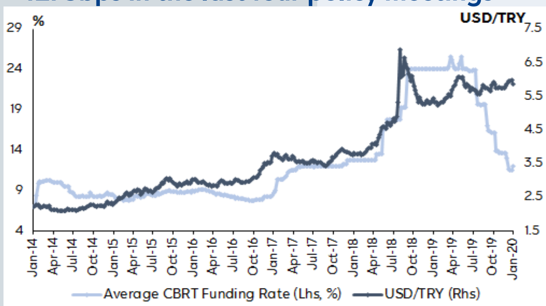
Source: Bloomberg, Eurobank Research

Turkey

Further economic activity improvement in Q4-2019

In the latest meeting minutes release, the Central Bank of Turkey (CBRT) acknowledged that keeping the disinflation process on track with the targeted path required the continuation of a cautious monetary stance. Recall that, the CBRT cut its key polict rate (KPR), the 1-week repo rate, by 75bps from 12.0% to 11.25% in mid-January, bringing the cumulative easing since July to 1,275bps. The inflation outlook improvement, despite the slighthly stronger than anticipated year-end reading (Dec: 11.8% YoY vs. Nov: 10.6% YoY still below the year-end inflation CBRT projection of 12%), improved agents' expectations and, along with a relatively stable lira, constitute the main drivers behind the CBRT's decision. Provided that inflation remains on a declining trajectory and there are no other unpleasant geopolitical or other external environment concerns arising, CBRT is widely seen and most likely will proceed with further modest rate cuts in 1H-2020 bringing the KPR down to 10%. Recent data announcements provide more evidence that the economy is exiting the recession in a V-shaped manner (Q3: 0.9% YoY, the first positive reading in a year) while most high-frequency indicators pointed to a more gradual recovery of economic activity in Q4-2019. On a calendar adjusted basis, industrial production accelerated to 5.1% YoY in November up from 3.9% YoY coming in slightly below consensus expectations.

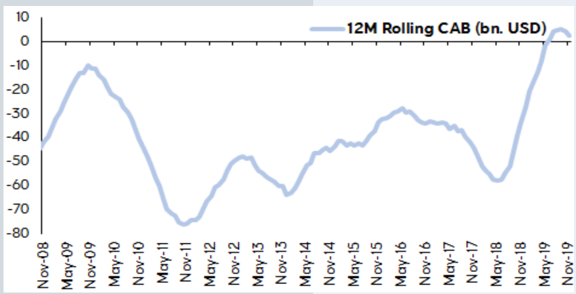
Figure 26: Central Bank slashed interest rates by 1275bps in the last four policy meetings



Source: Bloomberg, Eurobank Research

The manufacturing PMI remained unchanged on a monthly basis at 49.5 in December up from 49.0 in October still close to the multi-month high of 50 recorded in September. Having peaked at 14.2% in July, unemployment on a seasonally adjusted basis recorded its third consecutive monthly decrease. Unemployment improved further to 13.6% in October from 13.9% in September and 14.1% in August. The improvement in labor market conditions is driven both by robust job creation but also reflects a muted labor force participation rate of 52.9%. Non-agricultural employment increased by 214k, registered the highest increase since March2017, on a monthly basis underpined by gains in industry (+120k) and to a lesser extent in construction (45k) and services (49k). Retail sales surged to 8.5% YoY in November, supported by sales of non-food products (13% YoY vs 9.7% YoY in October), automotive fuel (8% vs 6.1% in October) and food, drinks & tobacco (0.9% vs 0.4% in October). This is the fastest pace since Jan2018, up from a revised 6.3% YoY in October vs. 3.1% YoY in September.

Figure 27: 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)		
	2019	2020f	2021f	2019	2020f	2021f	2019	2020f	2021f	2019	2002f	2021f	2019	2020f	2021f
World	2.9	3.1	3.2	3.4	3.1	3.0									
Advanced Economies															
USA	2.3	1.8	1.9	1.8	2.0	2.1	3.7	3.7	3.7	-2.4	-2.4	-2.4	-4.7	-4.7	-4.7
Eurozone	1.2	1.0	1.1	1.2	1.2	1.3	7.6	7.5	7.5	2.8	2.7	2.6	-0.9	-1.1	-1.1
Germany	0.6	0.8	1.5	1.4	1.5	1.5	3.2	3.4	3.5	7.0	6.8	6.4	1.5	0.8	0.6
France	1.2	1.3	1.3	1.3	1.4	1.4	8.5	8.3	8.1	-0.4	-0.5	-0.6	-3.1	-2.4	-2.2
Periphery															
Cyprus	3.3	2.9	2.6	0.5	0.7	1.3	7.2	6.0	5.5	-7.2	-4.8	-4.3	3.8	2.7	2.4
Greece	2.0	2.3	2.0	0.5	0.6	0.9	17.3	15.4	14.0	-2.0	-2.1	-2.0	1.2	1.2	1.1
Italy	0.2	0.3	0.5	0.7	0.8	1.0	10.0	10.0	10.0	2.9	2.8	2.7	-2.2	-2.5	-2.4
Portugal	2.0	1.8	1.7	0.3	1.1	1.3	6.3	6.0	5.8	-0.4	-0.7	-1.0	-0.1	0.0	0.6
Spain	2.0	1.7	1.6	0.8	1.1	1.4	13.9	13.3	12.8	2.4	2.5	2.6	-2.3	-2.2	-2.1
UK	1.3	1.2	1.4	1.8	2.0	2.2	3.8	4.0	4.1	-4.3	-4.2	-4.2	-2.2	-2.4	-2.2
Japan	1.0	0.4	0.6	0.6	0.6	0.6	2.3	2.4	2.4	3.5	3.3	3.3	-2.6	-2.9	-2.7
Emerging Economies															
BRICs															
Brazil	1.1	2.2	2.5	3.7	3.8	3.7	11.9	11.3	10.2	-2.5	-2.6	-2.6	-6.1	-5.5	-5.3
China	6.1	5.8	5.8	2.9	3.1	2.2	4.2	3.8	3.8	1.1	0.8	0.5	-5.4	-4.8	-4.6
India	6.1	5.0	6.0	3.7	4.4	4.3		*NA*		-2.0	-1.3	-1.6	-3.4	-3.7	-3.5
Russia	1.3	1.7	1.8	4.5	3.3	4.0	4.6	4.6	4.5	5.0	3.9	3.8	1.5	1.1	0.7
CESEE															
Bulgaria	3.7	3.2	2.9	2.5	2.5	2.3	4.4	4.1	4.0	7.5	5.5	5.0	-2.0	0.0	0.0
Romania	3.8	3.3	2.8	3.8	3.4	3.7	4.0	4.2	4.8	-5.0	-4.5	-4.0	-4.1	-4.5	-4.5
Serbia	4.8	3.7	4.0	2.2	2.0	2.1	13.1	11.0	10.5	-5.8	-5.6	-5.5	0.2	-0.5	-0.5
Turkey	0.2	2.5	3.0	15.2	12.5	12.0	13.8	13.7	12.9	0.5	-1.0	-2.5	-3.0	-4.0	-4.5

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

Eurobank

Eurobank Research

Eurobank Fixed Income Forecasts

	Current	March 2020	June 2020	September 2020	December 2020
USA					
Fed Funds Rate	1.50-1.75%	1.47-1.70%	1.41-1.65%	1.39-1.65%	1.35-1.60%
1 m Libor	1.67%	1.76%	1.71%	1.70%	1.65%
3m Libor	1.74%	1.84%	1.78%	1.77%	1.72%
2yr Notes	1.40%	1.61%	1.61%	1.61%	1.59%
10 yr Bonds	1.58%	1.87%	1.90%	1.92%	1.94%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.39%	-0.45%	-0.46%	-0.47%	-0.47%
2yr Bunds	-0.65%	-0.66%	-0.68%	-0.68%	-0.65%
10yr Bunds	-0.40%	-0.38%	-0.38%	-0.37%	-0.30%
UK					
Repo Rate	0.75%	0.75%	0.70%	0.70%	0.75%
3m	0.76%	0.74%	0.72%	0.74%	0.75%
10-yr Gilt	0.55%	0.78%	0.85%	0.92%	0.99%
Switzerland					
3m Libor Target	-0.69%	-0.77%	-0.77%	-0.79%	-0.79%
10-yr Bond	-0.72%	-0.55%	-0.54%	-0.51%	-0.50%

Source: Bloomberg (market implied forecasts)

Eurobank

Eurobank Research

Research Team

Dr. Tasos Anastasatos | Group Chief Economist
tanastasatos@eurobank.gr | + 30 214 40 59 706

Anna Dimitriadou
Economic Analyst
andimitriadou@eurobank.gr
+ 30 210 37 18 793

Ioannis Gkionis
Senior Economist
igkionis@eurobank.gr
+ 30 214 40 59 707

Dr. Stylianos Gogos
Economic Analyst
sgogos@eurobank.gr
+ 30 210 37 18 733

Maria Kasola
Economic Analyst
mkasola@eurobank.gr
+ 30 210 33 18 708

Olga Kosma
Research Economist
okosma@eurobank.gr
+ 30 210 37 18 728

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr
+ 30 210 37 18 991

Dr. Theodoros Stamatiou
Senior Economist
tstamatiou@eurobank.gr
+ 30 214 40 59 708

Elia Tsiampaou
Economic Analyst
etsiampaou@eurobank.gr
+ 30 214 40 59 712

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