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As suggested by the latest manufacturing PMIs, global economic activity continued to lose momentum in October amid tightening financial conditions. However, persistent price pressures and labor market tightness keep the pressure on Central Banks to follow through with additional tightening as they remain resolute in restoring price stability. Yet, aiming to better gauge the impact of the cumulative tightening delivered so far as the hiking cycle has come closer to the terminal rates, major Central Banks introduce the potential for a near-term downshift in the pace of further tightening.

Macro Picture

USA: GDP growth rebounds in Q3, though the medium-term outlook remains weak

EA: Q3 GDP surprised to the upside, but forward-looking indicators signal a looming recession

UK: on the edge of a prolonged and deep recession after the government's fiscal U-turn

CESEE: early Q3 GDP growth readings reveal the expected slowdown in H2

Markets

FX: USD still the driver of risk in FX, while the market is trying to adjust to diverging Central Bank policies

Rates: both EU and US yields moved higher as inflation remains on an upward trend.

EM: assets relieved and USD weakened on expectations of Central Banks' pivot; FED, however, appeared hawkish in its last meeting

Credit: Spreads mostly tighter with CDS indices outperforming cash bonds. Recession worries expected to keep volatility and spreads elevated

Policy Outlook

USA: the Fed signals a deceleration in the pace of future hikes, but the terminal rate will be higher

EA: the ECB likely to proceed with smaller hikes as tightening cycle is closer to the terminal rate

UK: the BoE pushes back on market terminal rate expectations after delivering a dovish 75bps hike

CESEE: most central banks reluctant to proceed with further tightening amid economic slowdown

Key Downside Risks

DM: enforced EU gas rationing, high inflation for longer, under-tightening or over-tightening by major CBs, further escalation of the Ukraine war, a worsening of China's property sector crisis, renewed COVID-19 outbreaks and lockdowns

EM: exposed to the "triple blow" of a stronger dollar, high borrowing costs and capital outflows; economies with exceeding debt under higher risk

Special Topic in this issue

→ Causes and effects of the soaring inflation in Turkey

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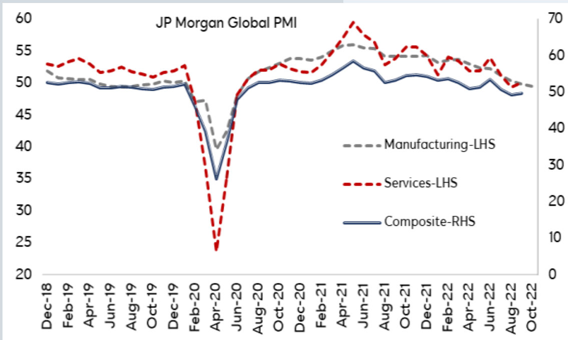
Macro Views
Latest world economic & market developments

Continued loss of global growth momentum, while major central banks introduce a potential downshift in the pace of future rate hikes

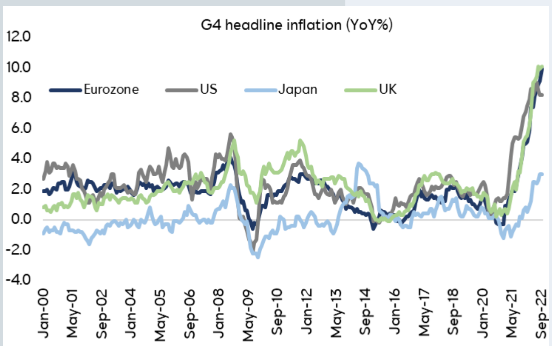
As suggested by the latest manufacturing PMIs, global economic activity continued to lose momentum in October amid tightening financial conditions and higher natural gas prices in Europe. Moving deeper into contractionary territory after dropping below the boom-or-boost level of 50 in August for the first time in two years, the J.P. Morgan global manufacturing PMI fell from September's 49.8 to 49.4, a level not seen outside of recessions. The deterioration was led by a further softening in the future output and forward-looking new orders, pointing to even more weakness in factory output. However, price pressures remain stubbornly high, despite signs of slowing global growth. Monthly gains in core inflation remained strong by historical standards in several major economies in October, suggesting that persistently high inflation has broadened out beyond food and energy to the wider economy. Besides persistent underlying price pressures, labor markets remain tight across most economies, keeping the pressure on central banks to follow through with additional tightening, as they remain resolute in preventing a wage price spiral and bringing inflation back on a gradual path toward target so as for price stability to be restored on a sustained basis. Though further tightening is expected as major central banks proceed with the most aggressive and synchronized rate hiking cycle in decades — with the BoJ remaining a dovish outlier— a downshift in the pace of their future hikes is likely coming soon, in order to better gauge the impact of the cumulative tightening delivered so far and monetary policy lags, as rates have moved closer or even deeper into a restrictive territory. That said, the tone the ECB adopted at the latest policy meeting on 27 October after delivering a further 75bps rate hike, was perceived as more dovish than expected, supporting the view that, though the tightening cycle still has some way to go, the

Figure 1: PMI data point to a continued downturn in global economic activity



Source: Markit, Eurobank Research

Figure 2: Inflation keeps rising worldwide



Source: Eurostat, BLS, BoE, Statistic Bureau of Japan, Eurobank Research committee may be able to proceed with smaller hikes in the subsequent meetings as the tightening cycle has probably come closer to the terminal rate. On a similar footing , after raising the target range for the federal funds rate by a fourth consecutive 75bp to 3.75-4.00% at the 1-2 November meeting, the FOMC opened the door to a potential downshift in the pace of future rate hikes, though Chair Jerome Powell tempered this dovish perceived message by stressing that the terminal federal funds rate may need to go higher than previously expected, including indications of a longer tightening cycle and a longer period at that terminal rate.

Developed Economies

US: According to the advance estimate, US Q3 GDP grew by an annualized rate of 2.6%QoQ, mainly driven by a narrowing trade deficit as imports dropped sharply while exports continued to grow strongly. However, real final sales to domestic purchasers (GDP excluding inventories and net trade) rose by just 0.5% after a 0.2% gain in Q2, well below trend growth of around 2.0%, pointing to slowing underlying growth. Even so, after a 1.1% annualized GDP growth decline in H1, the Q3 GDP estimate marks a turnaround in economic activity, in line with the FOMC's assessment that the US economy remains resilient enough to withstand additional rate hikes to further slow demand and get inflation under control. Meanwhile, underlying price pressures are far from abating yet, while the labor market remains tight, giving the Fed the green light to raise rates substantially further into restrictive territory to restore price stability following a cumulative 375bps of rate tightening so far this year. With the Fed intending to continue with rate hikes, awaiting concrete signs of a softening in labor market conditions and price pressures, GDP growth rebound in Q3 is likely to prove temporary and economic activity is expected to lose momentum again as the impact of tightening Fed policy will be mostly felt in the period ahead — given the lags of monetary policy — as suggested by a recent string of disappointing sentiment surveys pertaining to the first month of Q4.

Euro area: Eurozone real GDP unexpectedly grew in Q3, driven by Germany, defying market expectations of a recession. According to the flash estimate, real GDP grew by 0.2% QoQ, although sharply lower from H1 2022, with some GDP reports at country level suggesting that, domestic demand, and the services sector in particular, was among the main growth drivers. However, even though Eurozone remained remarkably resilient, a recession is still looming, as suggested by forward-looking indicators, including PMIs which showed a further broad-based decline in economic activity in October and the Economic Sentiment which dropped for the eighth consecutive month to a post-July 2020 low. Inflation also came stronger than expected in October, with headline CPI and core rising to a fresh all-time high of 10.7% YoY and 5.0% YoY, respectively. In response to persistent price pressures, the ECB increased its key policy rates by a further 75bps at the 27 October meeting, but the overall tone in communication was perceived as more dovish than expected. Nevertheless, ECB President Christine Lagarde made clear that the rate tightening cycle still has some way to go, although it has probably come closer to the terminal rate and thus the MPC may be able to proceed with smaller rate hikes in the subsequent meetings.

Emerging Economies

EM: While prospects for the last quarter of 2022 have slightly improved, those for 2023 have deteriorated, as evident in the IMF's Autumn Outlook. The emerging part of the global economy is expected to grow by 2.5% in Q4-2022 from 2.1% anticipated in June, suggesting not that the negative repercussions from the global inflationary pressures and the geopolitical uncertainty from the war between Russia and Ukraine are proving milder that previously thought but that they will unwind further in 2023. That said, GDP growth rate in the following year is expected to remain stable at 3.7%, which is by 0.2% lower compared to the Summer Outlook. By breaking down the headline EM growth figures in both Q4-2022 and 2023 across the emerging geographic areas, it is growth in the European EM region that is anticipated to remain more sluggish, primarily on the back of Russia, Ukraine and to a lesser extend due to the affected neighboring European countries. Worth noticing developments in the emerging universe during the past month came from the political stage as well; Xi Jinping succeeded in remaining at the helm of China for another 5-year term, the third in a row, while, in Brazil, former President, Luiz Inácio Lula da Silva was reelected ousting from chair Jair Bolsonaru. Last but not least, the enforceability of the grain export deal through the Black Sea which was sealed in July between Russia, Ukraine, Turkey and the UN was jeopardized as Russia threatened to back out. The said jitter shook the markets of agricultural commodities in early November but only temporarily as Russia allowed finally for the grain deal to resume.

CESEE: The region has emerged into the soft underbelly of the EM sphere, given its proximity to the war front, and is deemed to remain so during 2023. As Q3 GDP growth readings have started being released in the region, prints in Serbia (1.1% YoY, market consensus at 2.6% YoY, Q2 reading at 3.9% YoY) and Czechia (1.6% YoY, market consensus 1.7% YoY, Q2 reading at 3.7% YoY) bode well for the anticipated deceleration in H2-2022. Meanwhile, inflationary pressures remain unabated as evident in the most recent CPI prints[1] both in yearly and monthly terms with the annual prints remaining for good at double digit territory. Considering the above, risks related to the growth outlook of the area are tilted to the downside. The latter, once paired with idiosyncratic factors, such as the political uncertainty in Bulgaria or Serbia's reluctance to discipline with the EU sanctions' regime against Russia, have led to increasing borrowing costs on international bond markets and the CESEE region in specific. Towards that end, some economies, such as the Serbian and the North Macedonian, have already pursued and secured financial assistance by the IMF while Bosnia-Herzegovina, reportedly, is considering exploring the same option.

[1] For some regional economies the most recent CPI print refers to September for others to October

CESEE Markets Developments & Outlook

Bulgaria

Yield spreads opened up significantly in the global markets, following the higher-than-expected inflation figures. Eurobond yields marked a mixed trajectory on all maturities. 2027 and 2028 tenors posted an 8bps decrease and a rise of 20bps, respectively. Yields of longer maturity bonds, namely the 30-year rose by 11bps, and the 34-year fell by 8bps, while the 50-year rose by 19 bps. On the short-term spectrum, the 2024 Eurobonds fell by 12bps. Local papers recorded more noticeable movements. On the short-end, the 3-year tenor rose by 82 bps. The 7-year tenor rose by 142bps, and the 15-year tenor rose by 84 bps. The Ministry of Finance held three successful auctions at the local market: a two-times reopening of 10.5year and a single of 5.5year government securities, while the reopening of another 10.5year series of government bonds was canceled.

Serbia

The Central Bank of the country stepped directly in the FX market with euro purchases in order to tame the appreciating dynamics of the dinar, which remained vivid during October. While the sources of appreciation cannot be spotted clearly, those could be tied with increased demand for Serbian dinars by Russian citizens and entrepreneurs given the isolation the Russian economy is confronted with under the EU sanctions regime and the reluctancy Serbia still shows to discipline with the same stance. The globally increasing financing costs will most probably affect adversely the country's debt service capacity for 2023 with an evident impact on the public finances of the economy, namely the fiscal deficit and the public debt. Towards that end, the Serbian government sealed proactively a standby facility with the IMF with a 24months duration and EUR2.4bn value. Looking at the local secondary bond market, the increase in interest rates is somewhat slowing down. Yields have increased on average of 30bps during October, with the 3.5-year, 5.5-year and 10-year RSD denominated bonds currently trading at 6.80%, 7.50% and 7.90%, respectively.

Markets View

Foreign Exchange

EUR/USD: After trading above parity, the pair retreated back below 0.98, on anticipation of a hawkish Fed (which proved to be the right view post the last Fed meeting). We should revisit 0.96 or lower. For the USD to weaken meaningfully, the Fed has to become more concerned about growth than inflation-we are not there yet ; US core CPI inflation needs to peak and the US labour market remains very tight. Meanwhile, the EUR is vulnerable owing to the adverse energy backdrop, the reluctant ECB partly amid concerns around the periphery, and weakening China's growth.

EUR/GBP: The pair oscillates around 0.87 after the BoE hiked by 75bps to 3% but gave a dovish message to investors regarding future hikes. While the recent political developments have removed some of the tail risk, the bias remains for a weaker GBP into year-end.

Rates

EU: Rates remained pretty contained despite a volatile month, with 10y Swap hovering around 310bps but having traded for as high as 330bps. Slope of the curve has remained stable with 5s-30s trading at -50bps, and hovering around the same level for most of the month. Looking forward we expect yields to move higher as inflation remains at very high levels above 10.5%, despite rapid interest rate increases by the European Central Bank.

US: Rates closed October significantly higher especially at short tenors. The 10yr swap rate is trading at 420bps, up from 380bps at the beginning of October. Shift of the curve is trading at the same levels, close to -75bps after a very volatile month. Looking forward, we expect rates to move at even higher levels, as the Fed announced in November a fourth consecutive "jumbo" 0.75 percentage point rate hike and is expected to hike more. The market now is pricing a slower pace but a longer cycle and a higher peak rate.

Emerging Markets Sovereign credit

Assets got some relief from the previous quarter's headwinds as markets expectations of a central banks pivot led to a rally in spreads and a weaker US dollar. However, in the meeting of November 2 the FED appeared again hawkish by emphasizing that more tightening lies ahead even if they slow the pace of hikes. The EMBI Global Index closed at 448 bps at the end of October, 21 bps tighter on the month. In CEEMEA, Polish fixed income experienced some of the worst couple of weeks in history, while in Turkey the CBT reduced its policy rate by 150bp from 12% to 10.5%, versus the market consensus of a 100bp cut. In LATAM, some central banks seem to have reached their peak policy rate with Mexico hiking 525bps and

Brazil 1175bps so far. Concerning the latter, the left candidate Lula won the elections by the tightest gap ever recorded in Brazilian presidential elections. In Asia, Chinese bond spreads ended little changed, while the latest PMIs came in much weaker than expected. We believe this bear market rally could continue into year-end but only if data is supportive.

Corporate credit

Sentiment in Europe's corporate space was much better over the past month with a lot of buying interest especially during the second half, mostly driven by market expectations of a central banks' pivot. However, FED's meeting on the 2nd of November 2022 shows that stamping out inflation remains the main priority for FED; they are prepared to push rates higher even with slower pace of hikes. More specifically, Europe's Investment Grade (IG) credit spreads were mostly tighter during this period with Consumer Discretionary outperforming (around -8bps tighter), although Real Estate heavily underperformed the rest of the sectors; noteworthy, spreads on higher quality Real Estate IG were around +30bps wider while on lower quality were around +70bps wider. In addition, Energy, Consumer Staples and Utilities were -7bps,-5bps and -3bps tighter respectively while Technology and Industrials were around unchanged. Activity in Europe's primary market was somehow strong. European CDS Indices moved strongly tighter in the past month, significantly outperforming both cash bonds and equities; iTraxx Europe (IG) moved around -22bps tighter while iTraxx Xover (HY) around -82bps tighter.

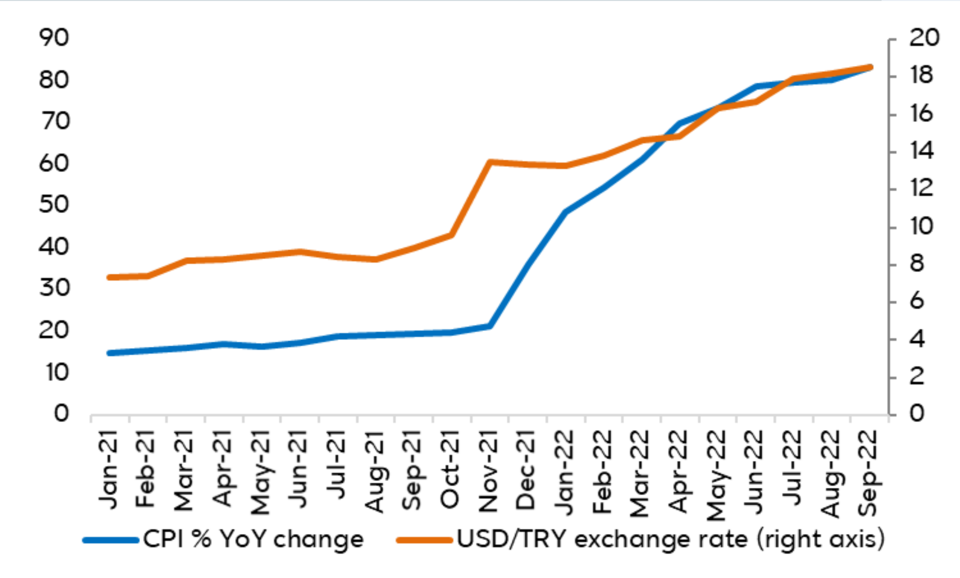
In the US, IG corporate cash ended tighter mostly outperforming the EU one. Noteworthily, US IG Real Estate strongly underperformed there as well (+33bps). Energy, Health Care and Telecoms were -15bps, -18bps and -16bps tighter respectively.

Moving towards the end of 2022 we expect spreads to remain volatile moving moderately wider as market themes will probably continue to be inflation persistence and the potential impact of higher rates on growth.

Special Topic: Causes and effects of the soaring inflation in Turkey

The CPI rate of change in Turkey peaked at 83.5% YoY in Sep-22, which is a 24--year high, remaining steadily above 10% for 3 years, since Nov-19. In Oct-21, it started accelerating posting prints at the area of 20% YoY. Initially, the consumer price hikes were mainly owed to the unconventional monetary policy stance adopted by the Central Bank of Turkey (TCMB) since Sep-21. Although the recovery of the global economy in Q2-Q3 2021 was stronger than initially projected, allowing the Central Banks to switch towards a less accommodative monetary policy, on the contrary, since Sep-2021 the Monetary Policy Committee (MPC) of the TCMB has proceeded to successive easing of the key policy interest rate (KPR), by cutting the one-week repo rate in four consecutive months. These MPC decisions brought the KPR down from 19% to 14% in end-Dec-21. Consequently, the concerns over monetary stability and overheating in the Turkish economy increased considerably, leading to capital outflows and switching of the private sector deposits from Turkish Lira (TRY) to other currencies. Those were the main reasons behind the depreciation of the Turkish Lira (TRY) vis-a-vis the USD by 55.2% in the period from the first cut of the policy rate up to the start of the Russian war in Ukraine, with the inflation rate increasing almost threefold at the same period, from 19.6% YoY in Sep-21 to 54.4% YoY in Feb-22 (Figure 3).

Figure 3: The expansionary monetary policy of the Central Bank of Turkey is the main cause of surging inflation since Nov-2021



Source: TURKSTAT, Refinitiv Eikon, Eurobank Research

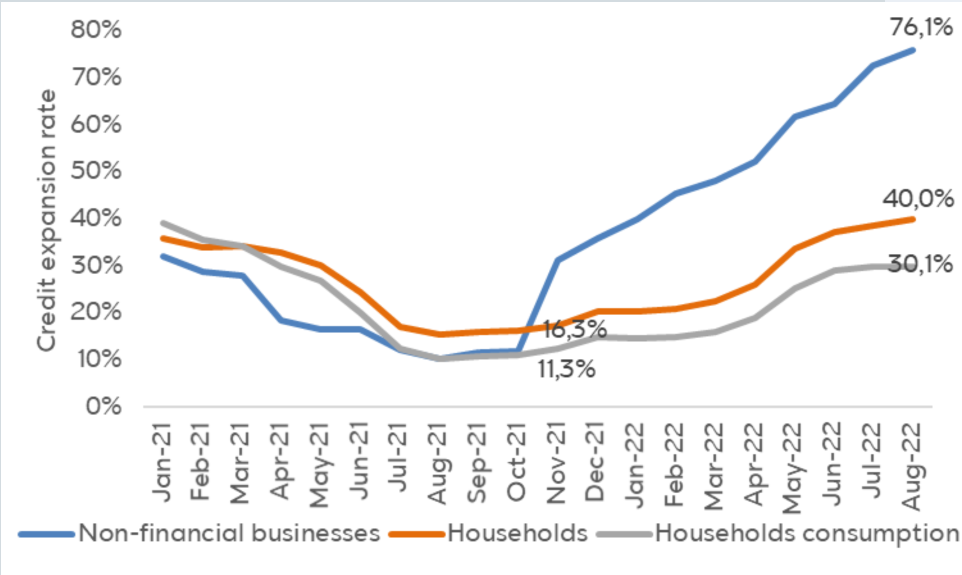
During the recent cycle of the KPR easing that started in mid-August, comprising up to now of three cuts by cumulatively 350bpts, the TRY depreciated moderately vis-à-vis the USD up to end-October, by ca 7.0%, thus limiting the inflation spike compared to the one presented above from Sep-21 to Feb-22[2]. However,

[2] Depreciation rate in terms of the USD/TRY exchange rate at the date of the first one-week repo rate cut in Sep-21

this time the depreciation was avoided mainly because of the extensive macroprudential measures gradually taken by the TCMB since past April, including TRY reserve requirements for foreign currency deposits, recently extended loans and high credit expansion, thus preventing another significant devaluation of the TRY through monetary operations of the banking sector.

The expansionary monetary policy of the TCMB boosted consumer prices not only through the TRY devaluation, but also through other channels. Loan supply to the non-financial sector of the economy accelerated sharply, especially towards businesses. After all, one of the main justifications for the loosening of the monetary policy stance was that its tightness had started to have a higher than envisaged contractionary effect on business loans[3]. During the period from Oct-21 to Sep-22, the credit expansion rate towards the non-financial businesses (including individual businesses) increased more than sixfold, from 12.0% YoY to 76.1% YoY. At the same time, credit supply to households also widened, with the relevant rate rising from 16.3% YoY to 40% YoY, mainly for consumption purposes (30.1% YoY in Sep-22 against 11.3% YoY in Oct-21, Fig. 4), supporting household demand and price hikes.

Figure 4: The easing of the monetary policy stance fueled consumption through wider credit expansion to households

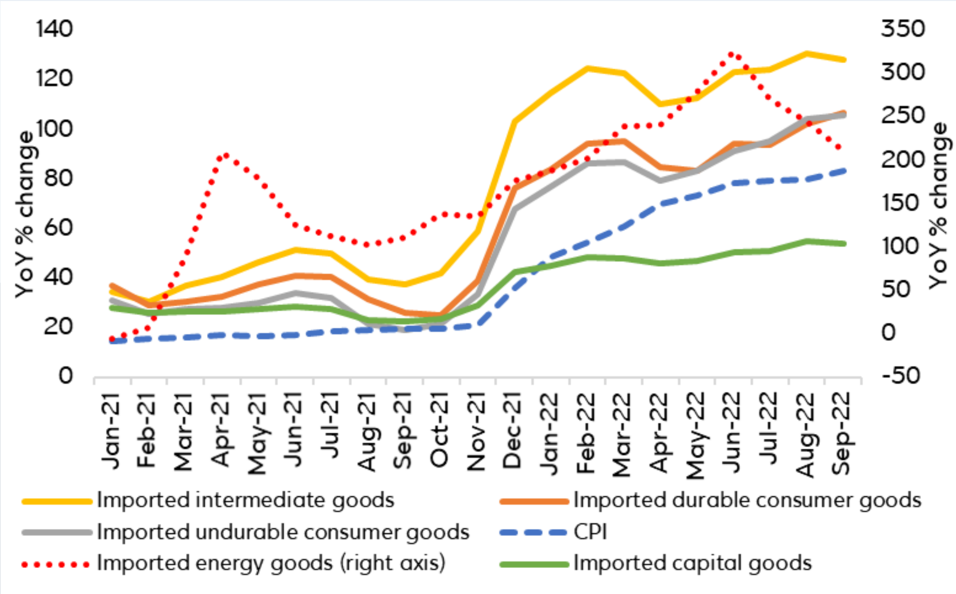


Source: Central Bank of Turkey, Eurobank Research

Surging energy prices are another major cause of the soaring inflation in Turkey, as well as in most other countries. Among all the main categories of imported goods, the trend in the annual percentage increase of imported energy goods is the one most similar to the trend of the inflation rate, from Dec-21 to Jun-22, albeit the latter ranged at lower percentages. When the rise in energy prices decelerated sharply from Jul-22 to Sep-22, the escalation of inflation moderated, despite the spike in the prices of almost all the other main categories of imported goods, excluding capital goods (Figure 5).

[3] E.g. TCMB Press Releases No 2021-42 (Sep-21) and No 2021-45 (Oct-21)

Figure 5: The surging prices in energy imports are another major cause of the soaring inflation in Turkey



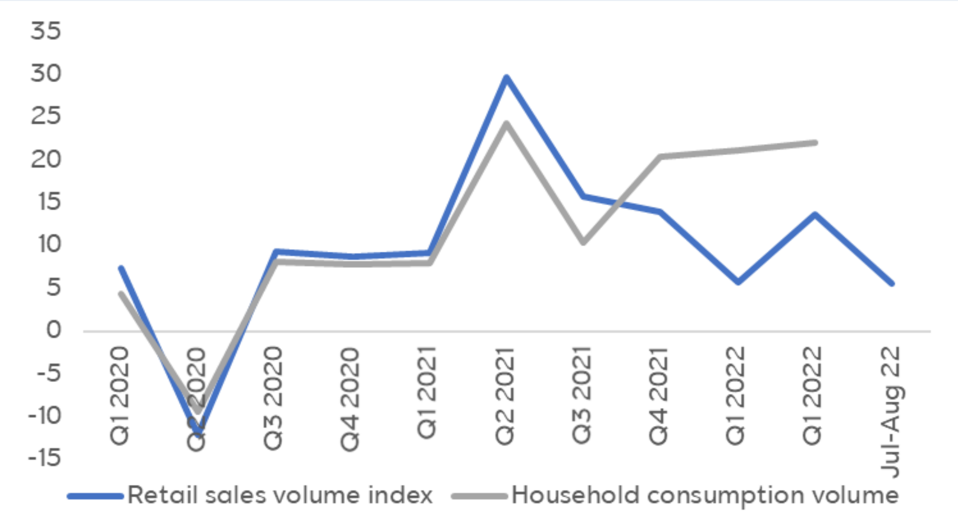
Source: TURKSTAT, Eurobank Research

The soaring inflation, climbing to unforeseen levels, was expected to have a negative effect on household consumption. The annualised increase in the volume index of the retail trade decelerated to 5.8% in Q1 2022 compared to 14.1% in Q4 2021 but the trend reversed in Q2 2022, with the index increasing on average by 13.8%. With the inflation rate at historically high levels in Jul-Aug '22 (80% YoY), the annual rise in retail volume moderated, nonetheless it was not low, averaging at 5.6% YoY (Figure 6). In terms of the volume of household consumption, its expansion spiked in Q4 2021 compared to Q3 2021, to 20.5% YoY from 10.4% YoY and accelerated further moderately in Q1 2022 (21.2% YoY) and Q2 2022 (22.1% YoY). Thus, the trend in the volume of household consumption is unaffected from intense inflationary pressures, whereas they have some weak effects in the retail volume growth. That said, a fact worth noticing is that contrary to the past, during the period Q4 2021-Q2 2022 the fluctuations in the volume of household consumption appear to be disconnected from the changes in the trend of the retail trade volume (Figure 6).

Besides the accelerating credit expansion for consumption purposes already mentioned, the effects of surging consumer prices on household demand are mitigated by sharp increases in the nominal minimum wage and subsidies to tackle the energy crisis. In end-December 2021, the Turkish government increased the net minimum wage by 50.4%, to TRY4,253.40 (≈$325 at that time). Another increase by 29.3% was put in force since Jul-22, resulting to a net minimum wage of TRY5,500 (≈$315 at the time of the wage revision). The overall increase in the nominal net minimum during January-July 2022 stands at 94.6%. Furthermore, since Jan-2022 minimum wage earners are exempted from income and stamp tax (Law No. 7349/2021). The first minimum wage revision has significantly affected average earnings, as the hourly earnings index in industry-construction-trade-services increased by 50.3% YoY in Q1 2022 and 56.2% YoY in Q2 2022, the largest raises since at least 2010. Since July the salaries of civil servants also rose, by on average 41.7%.

Regarding subsidies to households related to the energy crisis, according to government officials, those totally amount for 2022 to TRY300bn (≈2.5% of projected 2022 nominal GDP). Recently, when presenting the 2023 central government budget bill, the vice president of the Republic of Turkey, Fuat Oktay, stated that energy subsidies to households for 2023 will total to TRY600bn.

Figure 6: The trend in the volume of household consumption is unaffected from high inflation; weak effects in retail volume



Source: TURKSTAT, Eurobank Research

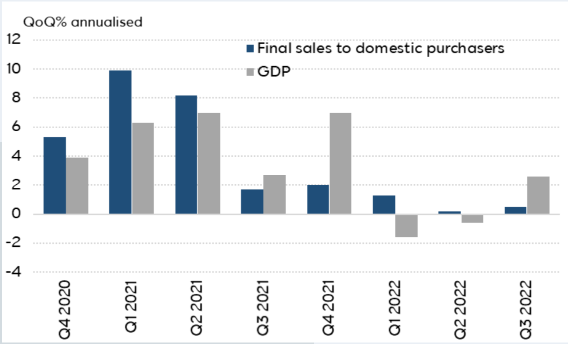
Looking ahead, the inflation trend in Turkey will be defined by a series of factors. On one hand, the rise in global prices of energy goods has eased lately, standing at ca 11.8% YoY for Brent oil spot price in October, and at 91.2% YoY for the TTF natural gas two month-ahead futures over the same month, from 37.0% YoY and 330.0% YoY, respectively, in Q3 2022. On the other hand, further hikes in energy prices have been announced recently in Turkey which are expected to sustain consumer price increases in the coming period. These comprise increases in early-September in electricity and gas prices for households, by 20% and 20.4% respectively, but also for the industry sector (by 50% and 47.6-50.8% respectively). Also, in October, BOTAS, the state-run gas company, switched to market pricing according to daily prices at the Energy Exchange of Istanbul (EPIAS) for 40% of the gas used by large industrial users, a change that will further push upwards the production cost of industrial products. As the state subsidies to households for electricity (50%) and gas (80%) price hikes do not extend over the indirect effects on consumer prices stemming from the higher energy cost for the industrial sector, the latter will weaken real household income. That said, in view also of the double elections in June 2023 (presidential-parliamentary), the already proclaimed expansion in energy subsidies for 2023 signifies the continuation of robust income support to households in the following year. This may be accompanied by another increase in the minimum wage, preserving, however, the high inflation-household income support nexus.

US

GDP growth rebounds in Q3 but medium-term outlook remains weak

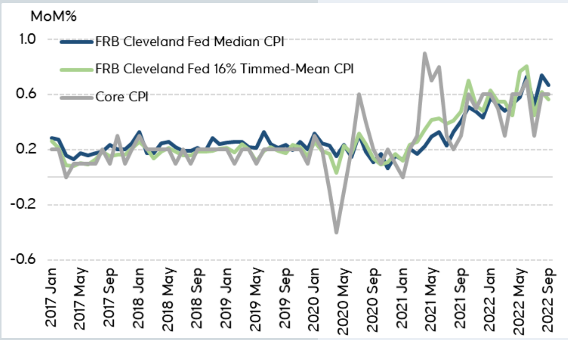
According to the advance estimate, US Q3 GDP grew by an annualized rate of 2.6%QoQ, mainly driven by a narrowing trade deficit as imports dropped sharply (-6.9%) while exports continued to grow strongly (+14.4%) However, real final sales to domestic purchasers (GDP excluding inventories and net trade) rose by just 0.5% after a 0.2% gain in Q2, well below trend growth of 1.8%, pointing to slowing underlying growth. Even so, after a 1.1% annualized GDP decline in H1, the Q3 GDP estimate marks a turnaround in economic activity, in line with the FOMC's assessment that the US economy remains resilient enough to withstand additional rate hikes to further slow demand and bring inflation under control. The housing market remains an exception, as it is already feeling the effects of higher interest rates, with activity indicators remaining in a downtrend throughout most of the year. Meanwhile, September's core CPI rose from 6.3%YoY to a fresh 40-year peak of 6.6%YoY, suggesting that underlying price pressures are far from abating. In addition, the September employment report pointed to continued labor market tightness, with the unemployment rate falling to 3.5%, matching July's 50-year lows, and hourly earnings dropping to 5.0%YoY, but still close to March's two-year high of 5.6%YoY and well above pre-pandemic levels, giving the Fed the green light to raise rates substantially further into restrictive territory to restore price stability following a cumulative 375bps of rate tightening so far this year that lifted the federal funds target range to 3.75%-4.00% in November. With the Fed intending to continue rate hikes, awaiting concrete signs of a softening in labor market conditions and price pressures, GDP growth rebound in Q3 is likely to prove temporary and economic activity is expected to lose momentum again as the impact of tightening Fed policy will be mostly felt in the period ahead — given the lags of monetary policy — as suggested by a recent string of disappointing sentiment surveys pertaining to the first month of Q4, including October's PMIs which showed a drop in the manufacturing gauge into contractionary territory for the first time since June 2020 (49.9). For the full year, we expect GDP growth to settle at 1.6% before diving to just 0.2% in 2023, amid higher interest rates, the ongoing squeeze in real incomes, depleted savings and softer global growth, while the outcome of the 8 November mid-term elections will have an impact on how the government will respond to the anticipated sharp slowdown.

Figure 7: Underlying Q3 GDP growth was weaker than the headline



Source: BLS, Eurobank Research

Figure 8: Measures of underlying inflation remain strong



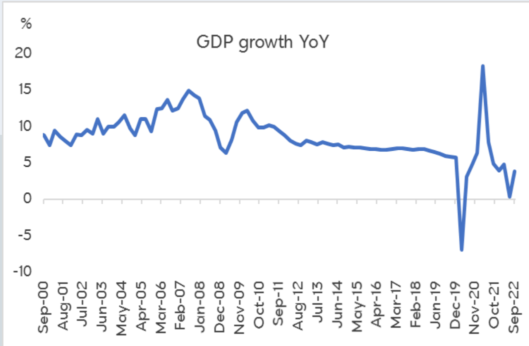
Source: BLS, FRB Cleveland, Eurobank Research

China

Q3 GDP growth print surpassed market expectations

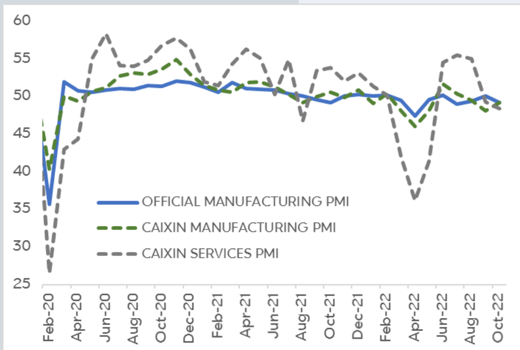
Recent key developments sum up to the completion of the 20th Communist Party Congress and the release of the Q32022 GDP growth print. The congress took place between 16 and 22 October and provided current state leader, Xi Jinping, with a third 5-year term at helm. While economic growth remains a top priority, national security obtained increased, if not utmost, importance in the speeches delivered the said days. Towards that end, the dual circulation strategy, first launched in 2020, was reiterated as the path through which the economy will become more balanced, resilient, and eventually more self-reliant. Dual stands for both domestic and international circulation with the ultimate goal of the said strategy being the reorientation of the Chinese economy by prioritising domestic consumption (internal) and at the same time remaining open to international trade (external). While there were modest expectations among analysts over some loosening on the zero-tolerance policy against Covid-19 infections, no such inference was made, suggesting that the strict measures remain in place. The partial lockdown in Wuhan a few days ago, nearly three years after the initial outbreak, sealed the implied adherence. Meanwhile, turning to the data front, right after the completion of the conference, the Q32022 GDP growth print was released, spurring some optimism as it surpassed Q2's reading and overshot market expectations in both annual and quarterly terms. GDP expanded by 3.9% YoY from 0.4% YoY in Q2, overshooting the market median at 3.3% YoY growth. The quarterly print came in at 3.9% compared to -2.7% in the previous quarter and beat the 2.8% market consensus. Based on the readings of the first three quarters, the year-to September GDP growth rate stands at 3.0% and the substantially higher than expected Q32022 figure has pushed our FY2022 forecast upwards to 3.3% from 3.0%. However, forward looking data, such as October's PMIs don't bode well with the optimism the much-awaited Q32022 print has spurred. Official and Caixin manufacturing PMIs came in below the 50.0 benchmark while the services PMI dropped to 47.0 from 48.9 in September. Beneath the worsened sentiment, we read the insecurity the zero tolerance spurs among entrepreneurs. Speculation over policy makers having grasped the said drawback and, thus, getting ready to gradually abandon the stringent measures was evident in the roaring positive reaction of Chinese equity markets at the start of the month.

Figure 9: While Q3 GDP growth print surprised to the upside...



Source: Bloomberg, Eurobank Research

Figure 10: ...PMIs do not mirror the same optimism



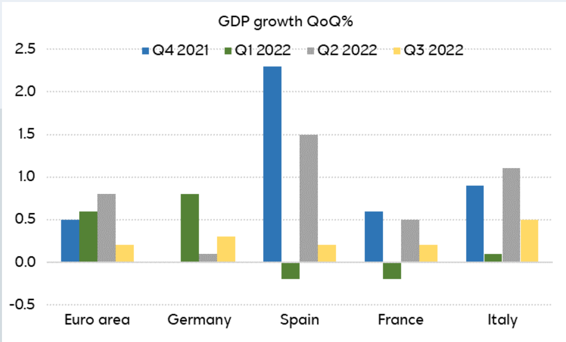
Source: Bloomberg, Eurobank Research

Euro area

Signals of a Q4 recession are flashing, while inflation keeps rising

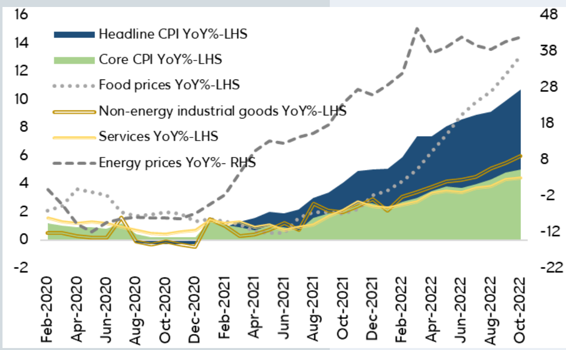
Eurozone real GDP unexpectedly grew in Q3 driven by Germany, defying market expectations of a recession as persistently elevated price pressures erode consumer purchasing power and higher energy prices squeeze firms' profit margins. According to the flash estimate, real GDP grew by 0.2%QoQ, although sharply lower from H1 and slightly below potential growth (0.3%QoQ), with some GDP reports at country level suggesting that, domestic demand, and the services sector in particular, was the main growth driver (the breakdown of Eurozone Q3 GDP readings due for release on 15 November). Presumably, the positive effects of the reopening of the economies after the COVID-19 pandemic have lasted longer than expected, while a strong labor market (unemployment at a record low of 6.6% in August) encourages consumers to spend their savings to cover rising prices (savings rate down to a post-pandemic low of 13.7% in Q2 after peaking at 25.3% two years ago), in spite of increasing economic uncertainty and low consumer confidence (-27.6 in October, close to September's -28.8 record low). However, even though Eurozone remained remarkably resilient in Q3, a recession is still looming, as suggested by forward-looking indicators, including PMIs which showed a further broad-based decline in economic activity in October (composite PMI at 47.1) and the Economic Sentiment which dropped for the eighth consecutive month in October to a post-July 2020 low (-1.1ppts to 92.5). Meanwhile, as the ECB's latest Bank Lending Survey revealed, new headwinds are emerging for the economy in the form of tightening credit conditions as monetary policy becomes less accommodative. Inflation also came stronger than expected in October, with headline CPI and core rising to a fresh all-time high of 10.7% YoY and 5.0% YoY, respectively, from 9.9%YoY and 4.8% YoY in September amid a broad-based increase across all sub-categories. In response to persistent price pressures, the ECB increased its key policy rates by a further 75bps at the 27 October meeting, but the overall tone in communication was perceived as more dovish than expected. Nevertheless, ECB President Christine Lagarde made clear that the rate tightening cycle still has some way to go, although it has probably come closer to the terminal rate and thus the MPC may be able to proceed with smaller rate hikes in the subsequent meetings.

Figure11: Eurozone GDP surprised to the upside in Q3 following an unexpected positive print for Germany & Italy



Source: Eurostat, Eurobank Research

Figure 12: Headline and core inflation hit new record highs in October



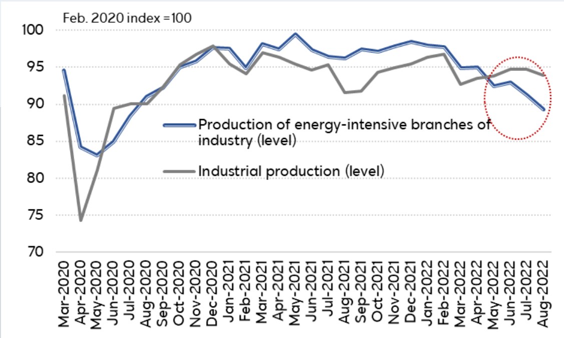
Source: Eurostat, Eurobank Research

Germany

Real GDP unexpectedly grew in Q3, but a recession is still looming

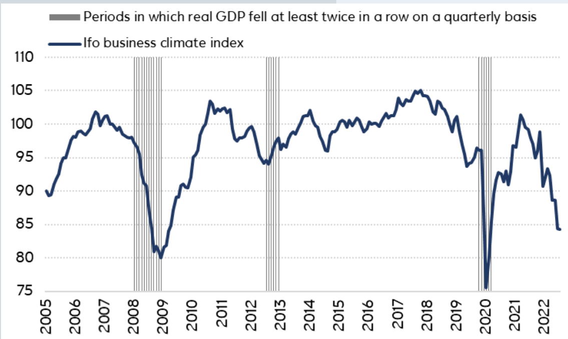
Real GDP unexpectedly grew in Q3 by 0.3%QoQ, with the Federal Statistical Office citing in the press release that private consumption was the main growth driver, probably thanks to the strong demand for services after the reopening of the economy that outweighed the negative impact of the intensifying energy crisis (the detailed GDP report due for release on 25 November). But taking into consideration a recent string of disappointing leading survey indicators and high frequency data, economic activity appears poised for a downward momentum over the winter, suggesting that the unexpected positive Q3 GDP growth print has likely delayed rather than postponed a looming recession, as higher gas and electricity prices weigh on the economy given its high reliance on Russian gas and its large energy-intensive industrial base (despite the recent sharp drop in wholesale energy prices, past rises have not yet fully passed through, so input costs are expected to remain at elevated levels in the next few months). Indeed, the output of the energy-intensive companies dropped by a further -2.1% MoM in August, a drop much larger than that of -0.8% MoM in the industry as a whole, taking the cumulative decline since February to -8.6% as the manufacturing of many products is no longer profitable. Meanwhile, the outlook for business investment spending seems worrying. The Ifo business climate index dropped in October for the sixth consecutive month, standing at levels at which the economy was in recession in the past and the headline manufacturing PMI moved deeper into contractionary territory over the same month (45.7 from 47.8), with production expectations and new orders plunging to fresh multi-year lows. In addition, in spite of the unexpected increase in September, retail sales still stood 1.1%QoQ lower in Q3, suggesting that consumption growth might not be sustained, as persistently high inflation (HICP at a fresh record high of 11.6%YoY in September) erodes household income, at a time when savings are back to pre-Covid levels (Q2 2022 at 10.8%, the lowest since Q4 2019, from a record high of 20.7% in Q2 2020) and the GfK consumer climate fell to a fresh all-time low of -42.5 in October. The positive surprise in Q3 GDP growth that is expected to be followed by a contraction of c. 1.0%QoQ in Q4, raises our 2022 full-year GDP forecast to 1.6% while for 2023 we expect GDP to decline by 1.1%.

Figure 13: Production of energy-intensive sectors has dropped more than in industry as a whole



Source: Federal Statistical Office, Eurobank Research

Figure 14: Corporate sentiment points to GDP growth contraction ahead



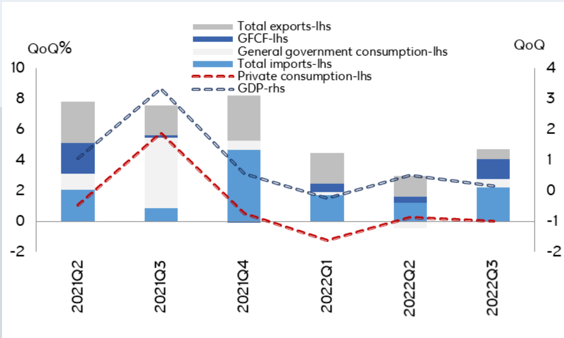
Source: Federal Statistical Office, Ifo Institute, Eurobank Research

France

GDP decelerated in Q3 as private consumption stagnated

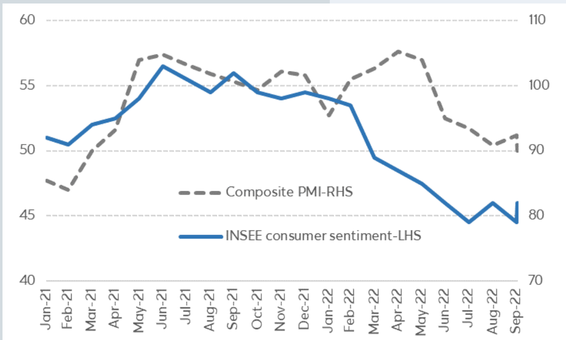
After GDP bounced in Q2 rising by a firmer than expected 0.5%QoQ, the French economy lost momentum in Q3 growing by a meagre 0.2%QoQ. Private consumption growth stagnated (0.0% vs. 0.3%QoQ in Q2), reflecting a significant slowdown in spending on services (+0.2%QoQ vs. 2.2%QoQ) and a continued decline in spending on manufactured goods (-0.4%QoQ vs. -1.6%QoQ) as high inflation erodes purchasing power. Domestic demand was again the main growth driver, but support came primarily from business investment (+1.3%QoQ, +0.3ppt) and, to a lesser extent, government spending (+0.6%QoQ, +0.1ppt). Inventory changes had a positive contribution (+0.2ppt), while net trade was a drag on growth (-0.5ppt) as import growth outpaced growth in exports (2.2% vs. 0.7%QoQ) mainly due to a decline in service exports (-0.4%QoQ vs. +3.3%QoQ) suggesting that the post-pandemic boost in tourism-related sectors is fading. Looking ahead, the headwinds the economy is facing will likely intensify, with GDP growth expected to weaken further in the coming months, as suggested by poor high-frequency indicators. The composite PMI fell from 51.2 to 50.0 in October, pointing to a stagnating economy, as the manufacturing index dropped further into contractionary territory (47.4) and activity in the services sector also slowed (51.3). In addition, INSEE consumer confidence rose from 79 to 82 in October, but still remained below its long-term average of 100, suggesting that consumption will likely remain weak in Q4, especially as price pressures continue to rise (HICP hit a fresh record high of 7.1%YoY in October). More worryingly, there is little hope that household consumption will pick up soon, as government support will be reduced next year. Regulated gas and electricity prices will increase more significantly (though their rise will be capped at 15%) and rebates on fuel prices will be abolished after being gradually reduced in the remainder of this year (they will be replaced with a fuel allowance for low-income workers). Meanwhile, power supply has been hit as 32 of the country's 56 nuclear reactors are closed due to planned maintenance or technical reasons and most of them are not expected to reopen before next February, at the earliest. Against this backdrop, we expect GDP to slow further in Q4 before the economy enters a recession in early 2023, though relatively mild, mitigated by government support.

Figure 15: GDP slowed in Q3 as private consumption stagnated



Source: INSEE Eurobank Research

Figure 16: Sentiment indicators point to weakening GDP growth is the coming months



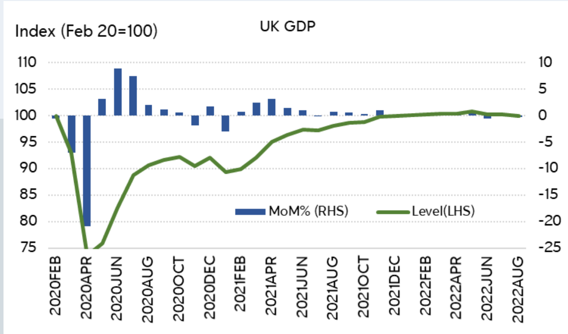
Source: INSEE, Bloomberg, Economic Research

UK

On the edge of a deep and prolonged recession

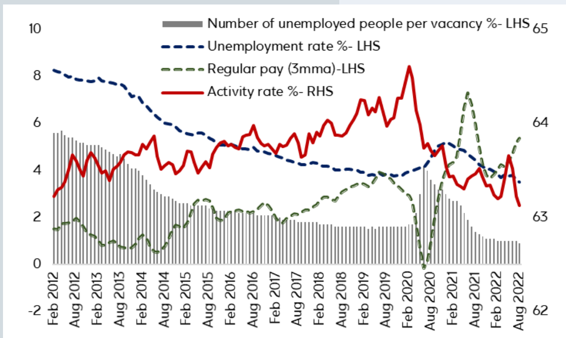
UK GDP fell by a higher than expected -0.3%MoM in August following a 0.1ppt downward revision in the July print to +0.1%MoM, largely driven by a -0.4%MoM drop in industrial production owning to weak manufacturing (-1.6%MoM). Services also disappointed falling by 0.1%MoM mainly on the back of a hefty 1.8% MoM decline in consumer-facing services, suggesting that the post-Covid rebound momentum is quickly dissipating. The only major sector that contributed positively to GDP growth was construction which recorded a 0.4%MoM output increase. With the August GDP print translating into a slightly negative carry-over effect into Q3 to the tune of -0.04ppt, the economy is unlikely to avoid a negative print in Q3, taking also into account that GDP growth in September is expected to be weak due to the bank Holiday for the funeral of Queen Elizabeth and the cancellation of many events in the period of mourning. More worryingly, the risk is that a Q3 GDP negative print may mark the beginning of a prolonged and deep recession following the reversal of c. £32bn out of the c. £45bn in permanent tax cuts from the mini-budget and the extension of the energy price cap only until April 2023, 18 months earlier than planned. The rising cost of living (September's CPI at a fresh 40-yr high of 10.1%YoY) and more fiscal tightening of c. £40bn — to be announced on 17 November when the government will deliver the Medium-Term Fiscal plan, alongside which the OBR will publish its economic and fiscal projections — to stabilize the debt-to-GDP ratio in the medium term, could also translate into a further drag on economic activity. The government's turn to a less expansionary fiscal stance reduces the inflationary impact of fiscal policy and the extent of monetary tightening needed for the BoE to curb inflation – as reflected on the recent removal of the "risk premium" on rates, also owning to the appointment of Rishi Sunak as the new PMI following Liz Truss's resignation. However, concerns over high inflation becoming entrenched, especially as the labor market remains tight (unemployment at a near 50-yr low and wage growth well above pre-pandemic levels) are expected to keep the BoE cautious. The market is pricing in a terminal Bank Rate from 3.00% currently to around 4.70% by this time next year, lower than 5.25% expected before the dovish 75bps rate hike by the BoE at the 3 November meeting and above 6.00% shortly after the mini-budget announcement in mid-September.

Figure 17: GDP fell in August for the second month this year after being stagnating for most of 2022



Source: ONS, Eurobank Research

Figure 18: Labor market still tightening despite weakening GDP growth



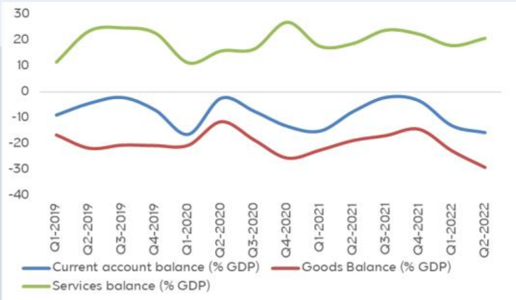
Source: ONS, Eurobank Research

Cyprus

Growth momentum loses steam from weakening exports of goods

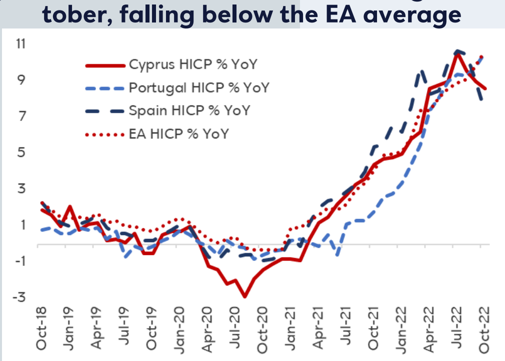
The recent regular revision of GDP data (annual/quarterly) showed that the economy grew in H1 2022 by a slightly faster than previously estimated pace, at 6.2%YoY from 6.0%YoY according to the second GDP release for Q2 2022. The upward revision stemmed mainly from a sharper increase in gross investment, by 30.6%YoY instead of 25.8%YoY previously estimated, as well as from a more robust household consumption (+7.2%YoY, up from +6.0%YoY). Turning to the recent trends in short-term indicators of economic activity, tourism revenues in August were higher by 46.7%YoY, but their increase moderated relative to July (+55.4%YoY) and June (+115.5%YoY), whereas the ease in the rise of tourist arrivals in September (+21.9%YoY vs +46.3%YoY in June-July) signifies a further slowdown in tourism receipts. Concerning the goods component of the current account balance, the relevant deficit widened by 63.3%YoY in August, with exports declining by 10.3%YoY, the biggest fall since Jun-2021, whereas the rise in imports was unchanged compared to July (ca 33%). The weak performance in exports of goods is reflected in the fall of the industrial production volume during Jul-Aug 22 (avg.: -1.1%YoY), after 16 consecutive months of expansion. On the flipside, the widening of imports is related to the stronger increase in the retail trade volume in Aug-Sep (+4.2%YoY). These dynamics have already led to a spike of the current account deficit to 14.4% of GDP in H1 2022. In case the geopolitical momentum remains relatively unchanged by the end of this year, a gradual easing of inflation is expected in Q4 2022 and a mild increase in private consumption, extended over imports and the current account deficit. Both the primary and overall budget surpluses in the Jan-Aug period lie considerably above the 2022 budget targets, providing adequate fiscal space in case more support measures are needed. The fiscal overperformance and strong growth enable a rapid de-escalation of the public debt as a % of GDP, but also of the funding cost for the Cypriot State and the country's economy in the medium-term, which can boost investment. These prospects are reinforced by the projections in the 2023 budget, for a primary surplus of 3.0% of GDP and higher public investment spending (+11.9%). They are reflected in the IMF revised upwards 2022 growth projection (3.5% from 2.1% in Apr-22).

Figure 19: Despite the recovery in tourism, the current account balance deteriorates due to a widening in goods deficit



Source: Central Bank of Cyprus, Eurobank Research

Figure 20: Inflation decelerated in August – October, falling below the EA average



Source: Central Bank of Cyprus, Eurobank Research

Bulgaria

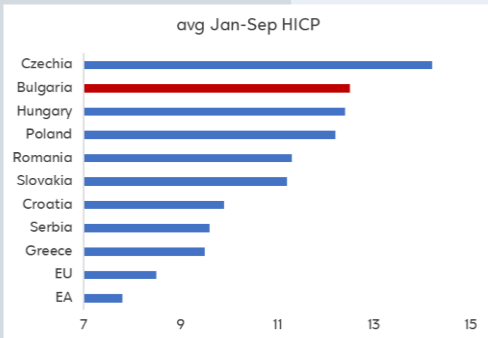
Headwinds for growth at the turn of the year

One month after the latest elections, the fourth in the last 18 months, negotiations among the elected parties have not led yet to the formation of a coalition government. Amid the prevailing political uncertainty, recently released hard data point to a mixed economic landscape. Retail sales increased by 2.1% YoY in August, compared to a -0.7% YoY decrease in July. On the flipside, industrial output growth eased to 16.5% YoY in August from 18.0% YoY in the previous month while on a monthly basis, it increased by 0.7% MoM from 1.1% MoM in July. Finally, the unemployment rate remained in a downward trend in September for the 14th consecutive month falling by 0.5ppt YoY and by 0.1ppt MoM to a fresh all-time low of 4.2%. The economic sentiment moved adrift in the past 3 months, improving slightly in October after a mild deterioration in the prior two months. Turning to inflation, it kept accelerating for 20 months in a row, coming in at 18.7% YoY in September and bringing the average Jan-Sep HICP rate at 125% YoY while on a monthly basis it grew by 1.2%, the same as in August. The increase continued to be driven by elevated energy, and food prices with some possible decompression on the energy segment - from the IGB operation in early October and its respective decrease by almost 30% in the locally regulated natural gas price - expected to pass through in the next couple of months. However, the latter view is not mirrored yet in the Central Bank's (BNB) latest macroeconomic forecasts report; the BNB expects annual inflation at 14.9% at year-end, which could be almost halved throughout 2023 (7.6%). GDP growth for 2022 is forecast to improve in the same report, as this year's growth projection was revised upwards to 2.8% from 1.9% in June but is expected to deteriorate materially in 2023 with the economy seen at an almost standstill mode (0.1% YoY). Even though the said figure is embraced as rather pessimistic, its reasoning, i.e. drawbacks from high prices of commodities and raw materials, increasing interest rates, concerns over gas shortages and worsening sentiment, is in tandem with that of the WB that forecast the economy to expand by 1.7% in 2023 from 2.9% in 2022.

Figure 21: Solid GDP growth footing in H1…

Source: Eurostat, Eurobank Research

Figure 22: …with persistent inflationary pressures



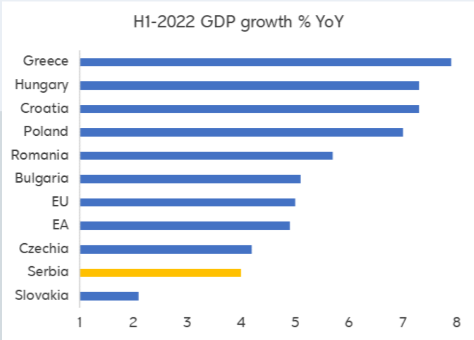
Source: Eurostat, Eurobank Research

Serbia

Flash Q3 growth estimate puts a brake on the FY2022 print

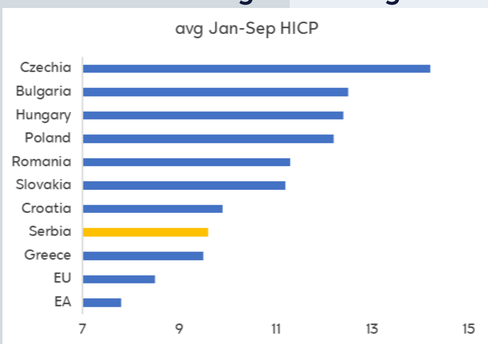
Q32022 non-seasonally adjusted real GDP growth flash estimate came in at 1.1% YoY after 4.0% YoY and 3.9% YoY in Q22022 and Q12022 respectively. Assuming that the detailed data with breakdown into expenditure-production-income components due on November 30 verifies the recent preliminary figure, real GDP growth in January-September 2022 landed on average to 3% YoY from 7.6% in the respective period in 2021. Along these lines, the Ministry of Finance revised downwards its forecasts for 2022 to 3.0% and for 2023 to 2.5% from 3.5% and 4.0% respectively in June. The drivers of the revision pertain to the prevailing uncertainty and the adverse repercussions of the war between Russia and Ukraine but, especially for 2022, are also based on idiosyncratic factors such as unfavorable weather conditions in the summer that have led to a smaller agricultural production. The inflationary outlook has shown so far, no signs of improvement as the annual percentage change of the CPI kept accelerating for 20 months in a row, coming in at 14.0% in September and bringing the average Jan-Sep HICP rate at 9.6% while on a monthly basis it rose by 1.5%, from 1.2% in August. Core prints follow the same trend pointing to broader price pressures than those coming from the energy and the food segments. Considering the above, the stance the National Bank of Serbia has adopted since April has been much awaited with the key policy interest rate, after 7 increases in a row, currently standing at 4.0% from 1.0% six months ago. The adverse financial conditions which are not expected to improve anytime soon along with the risks to the growth outlook which are tilted to the downside have led the Serbian government into discussions with the IMF in mid-September to receive financial assistance. The discussions bore fruits yesterday in early November resulting to the approval of a 24-month stand by facility (SBA) of SDR 1.9bn, equivalent to EUR2.4bn. The SBA will replace the existing Policy Coordination Instrument (PCI) approved in June 2021 and will build on the latter's reform agenda. According to the press release by the IMF, GDP growth in Serbia for 2022 and 2023 is expected at 2.5% and 2.25% respectively while the CA deficit as percentage of the projected GDP is expected to widen to 9% for both years from 4.4% in 2021. It is worth mentioning that the IMF, less than a month ago, in its Autumn Outlook, forecast higher growth rates for 2022 and 2023 (3.5% and 2.7% respectively) with the recent revision implying the prevailing uncertainty and the adjunctive fragility of all forecasts.

Figure 23: H1 GDP growth solid but among the lowest in the region…



Source: Eurostat, Eurobank Research

Figure 24: …with HICP remaining elevated, close to the region's average



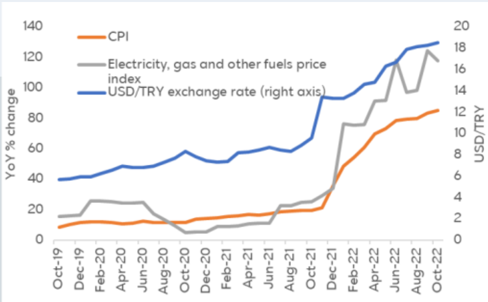
Source: Eurostat, Eurobank Research

Turkey

Further monetary policy easing, pressuring banks' soundness

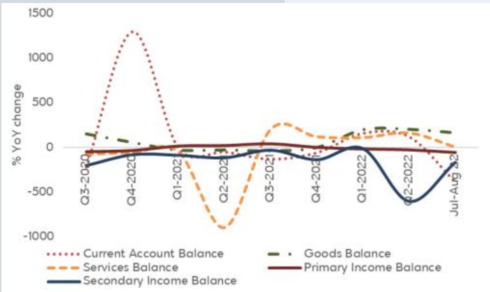
Although the inflation mounted to a new historical high in September (83.5% YoY) and the Turkish lira (TRY) exchange rates continued losing ground after the September policy rate cut —albeit at a slower pace than earlier rate moves— in its regular October meeting, the Monetary Policy Committee (MPC) of the Central Bank of Turkey (TCMB) reduced the one-week repo rate for a third consecutive time by 150bps, to 10.5%. The decision was justified on grounds of the continuation of leading indicators for H2 2022 pointing to a slowdown in economic growth. Furthermore, the MPC announced that it evaluated taking a similar step in the next meeting, ending - most probably -the rate easing cycle. The recent signs about the dynamics of economic activity from short-term indicators are in line with the aforementioned MPC assessment. The industrial production annual growth decelerated to 1.0%YoY in August, the smallest increase since Jul-20. The slowdown is reflected in exports of goods, that expanded in August by 12.4%YoY, the smallest rise so far in 2022, implying that competitiveness gains from the TRY depreciation are waning. On the contrary, the strong demand for goods imports remains unabated (≈+42.0% YoY in May-Aug 22), supported by the accelerating credit expansion to the non-financial sector, especially businesses (+76.1% YoY in Aug-22), increases in both the minimum wage (+29.3%, 2nd in 2022) and the salaries of civil servants (+41.7%) in July and energy subsidies. The same trends prevailed over exports and imports of services, causing a threefold deterioration of the current account balance in the Jan-Aug period compared to 2021 (+211.3%YoY). The further increase in energy prices announced in September-October will sustain soaring inflation in the period ahead. The latest and potential further policy rate cuts are expected to moderately affect consumer prices, due to the extensive macroprudential measures on banks preventing a sharp depreciation of the TRY, weighing considerably however on their balance sheets, and posing risks to their soundness, as highlighted also by the heads of the major Turkish banks in their recent meeting with the Minister of Finance and Treasury. In view of the upcoming elections in June 2023, the expansionary fiscal policy will continue boosting economic activity, as evidenced in the announcements about social aid spending (+73%) and energy subsidies (+100%) increases in the 2023 budget.

Figure 25: Surging energy prices and, to a lesser extent, currency depreciation continue fueling soaring inflation



Source: Central Bank of Turkey (TCMB), Turkstat, Eurobank Research

Figure 26: Diminishing competitiveness gains from TRY depreciation, as evidenced in the widening of the current account deficit in Q3 2022



Source: Central Bank of Turkey (TCMB), 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)		
	2021	2022f	2023f	2021	2022	2023f	2021	2022f	2023f	2021	2022f	2023f	2021	2022f	2023f
World	6.0	2.9	2.3	4.7	7.4	4.8									
Advanced Economies															
USA	5.9	1.7	0.4	4.7	8.0	4.1	5.4	3.7	4.3	-3.6	-3.9	-3.5	-10.8	-4.3	-4.1
Eurozone	5.3	3.0	-0.1	2.6	8.3	5.5	7.7	6.8	7.1	2.4	0.7	1.2	-5.1	-4.3	-3.6
Germany	2.6	1.5	-0.6	3.2	8.4	6.2	5.7	5.3	5.6	6.7	3.6	3.9	-3.7	-3.3	-2.6
France	6.8	2.5	0.4	2.1	5.8	4.5	7.9	7.4	7.6	-0.9	-1.4	-1.5	-6.5	-5.4	-4.8
Periphery															
Cyprus	5.5	4.7	2.3	2.2	8.5	4.0	7.5	6.0	5.6	-7.2	-8.0	-10.0	-1.8	-0.2	-0.7
Italy	6.7	3.3	0.0	2.0	7.9	5.3	9.5	8.3	8.5	3.4	-0.2	0.2	-7.2	-5.7	-4.9
Portugal	5.4	6.1	1.0	0.9	7.5	4.3	6.6	5.9	6.0	-0.7	-2.0	-1.7	-2.9	-2.0	-1.7
Spain	5.5	4.5	1.0	3.0	8.9	4.5	14.8	13.0	13.3	0.9	0.3	0.5	-6.9	-5.0	-4.4
UK	8.5	4.2	-0.4	2.6	9.0	6.3	4.6	3.8	4.4	-3.4	-5.7	-4.5	-7.4	-7.2	-6.5
Japan	1.8	1.6	1.4	-0.3	2.3	1.5	2.8	2.6	2.5	2.9	1.1	1.4	-6.4	-6.9	-4.5
Emerging Economies															
BRICs															
Brazil	4.8	2.7	0.8	8.3	9.3	5.1	13.5	9.7	9.8	-1.6	-1.4	-1.5	-4.4	-6.4	-7.4
China	8.1	3.3	4.9	0.9	2.2	2.4	4.4	4.1	3.9	1.8	2.0	1.1	-3.8	-5.5	-4.5
India	8.7	7.0	6.1	5.1	6.7	5.0		*NA*		-1.1	-3.4	-2.5	-6.2	-6.5	-6.0
Russia	4.7	-5.0	-3.0	6.7	14.0	6.8	4.8	4.7	5.3	6.7	10.4	6.8	0.4	-1.7	-2.4
CESEE															
Bulgaria	7.6	2.9	1.8	3.3	14.9	7.5	5.5	4.8	4.9	-0.5	-1.8	-1.0	-3.9	-4.1	-3.5
Serbia	7.0	2.8	2.7	4.1	11.1	7.2	10.1	10.1	9.5	-4.4	-9.0	-9.0	-4.4	-3.5	-2.8
Turkey	10.3	6.0	3.3	19.4	72.0	38.4	12.0	10.7	9.8	-2.2	-4.7	-3.6	-3.2	-4.0	-4.3

Sources: European Commission, IMF, OECD, Bloomberg, Eurobank Research

Eurobank Fixed Income Forecasts

	Current	December	March	June	September
USA					
Fed Funds Rate	3.75-4.00%	4.25-4.50%	4.49-4.30%	4.43-4.70%	4.30-4.55%
3m SOFR	4.18%	4.26%	4.51%	4.40%	4.17%
2yr Notes	4.72%	4.41%	4.36%	4.18%	3.88%
10 yr Bonds	4.19%	3.86%	3.83%	3.72%	3.59%
Eurozone					
Refi Rate	2.00%	2.45%	2.85%	2.85%	2.80%
3m Euribor	1.73%	2.17%	2.43%	2.45%	2.45%
2yr Bunds	2.02%	2.00%	2.15%	2.01%	1.88%
10yr Bunds	2.23%	2.15%	2.29%	2.18%	1.92%
UK					
Repo Rate	2.25%	3.45%	3.75%	3.70%	3.70%
3m Sonia	3.13%	3.17%	3.38%	3.18%	3.13%
10-yr Gilt	3.79%	3.48%	3.27%	2.99%	2.86%
Switzerland					
3m Saron	0.73%	0.90%	1.12%	1.18%	1.18%
10-yr Bond	1.12%	1.49%	1.66%	1.60%	1.52%

Source: Bloomberg (market implied forecasts)

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