ISSN: 2241-4851

Eurobank Research

EUROBANK

GLOBAL & REGIONAL MONTHLY

Incoming survey-based indicators from several major economies deteriorated further, pointing to an extended period of subdued growth. However, despite acknowledging recession risks, a number of major central banks continue to tighten monetary policy in response to persistent underlying price pressures and labor market tightness, remaining resolute in restoring price stability. Against this backdrop, global financial conditions have tightened further, most prominently through USD appreciation, raising risks of a further worsening in inflationary pressures and macroeconomic instability in the global economy.

Macro Picture

USA: Robust price pressures, economic activity, though slowing, remains decent

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

UK: New policies likely to prevent a prolonged recession but exacerbate medium-term inflation and fiscal risks

CESEE: With winter ante portas, energy prices could continue to fuel inflation

Markets

FX: USD strength continued on the back of a very hawkish Fed and risk off sentiment

Rates: EU and US remain high in an effort to tame inflationary pressures

EM: Assets sold off and risk appetite fell further as the macro environment deteriorated on hawkish central banks and renewed geopolitical tensions

Credit: Spreads wider in September, expected to trade moderately broader in Q4

Policy Outlook

USA: The Fed remains committed to restore price stability, in spite of risks of a US hard landing

EA: Persistently high inflation points to further aggressive ECB rate tightening near term

UK: Fiscal easing in a high-inflation environment will likely prompt more aggressive BoE tightening

CESEE: Monetary tightening varying across regional peers with some reaching the peak and others speeding up

Key Downside Risks

DM: Enforced EU gas rationing, high inflation for longer, further escalation of the Ukraine war, pronounced growth slowdown in China, renewed Covid-19 outbreaks and lockdowns

EM: Increased default risks especially for low-income countries and painful capital outflows in case of further tightening of global financial conditions

Special Topic in this issue

→EU Policy responses against the energy crisis

Contributing Authors:

Maria Kasola
Research Economist
mkasola@eurobank.gr

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurbank.gr

Michail Vassileiadis
Research Economist
mvassileiadis@eurobank.gr

Special thanks to the Global Markets team (Global_Markets_Trading@eurobank.gr), Eurobank Bulgaria and Eurobank Serbia.

October 2022

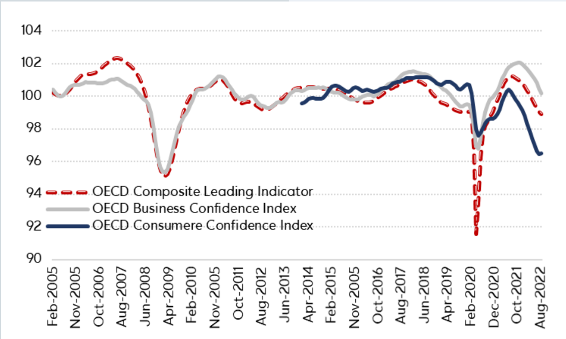
Contents

Macro Views
Latest world economic & market developments

Continued loss of global growth momentum amidst tightening financial conditions

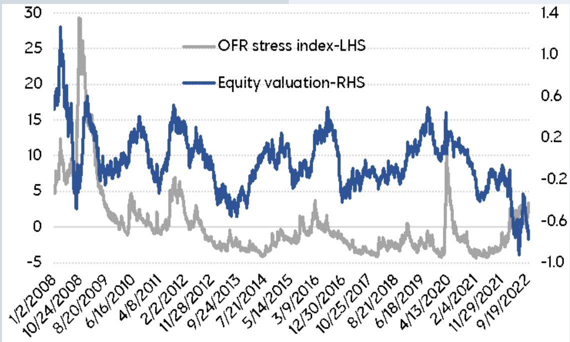
Incoming survey-based indicators from several major economies deteriorated further, pointing to an extended period of subdued growth. Business survey indicators suggested a growing risk of stagnating output, and global consumer confidence remained depressed amid concerns over persistently high inflation, with the OECD Composite Leading Indicator falling at the lowest level since the global financial crisis, barring a short-lived drop at the beginning of the pandemic in the spring of 2020. On the inflation front, global headline CPI, though still elevated and well above central banks' medium-term target, dropped further in August across a range of economies. Oil prices took another step down for the second consecutive month amid mounting global growth concerns and food inflation moderated for the fifth consecutive month. Meanwhile, monthly gains in core inflation remained strong by historical standards, suggesting that persistently high inflation has broadened out beyond food and energy to the wider economy. However, compared to Q2, core inflation momentum has slowed in Q3 —though still well above central banks' tolerance zone — on relatively lower commodity prices and a modest drop in goods price pressures thanks to an encouraging improvement in supply chain conditions. Notable exception to the softening inflation trend in August was the Eurozone and Japan among major economies, as higher energy prices prevented any near-term inflation moderation, pushing headline inflation further up, instead. Besides persistent underlying price pressures, labor markets remain tight across most economies, signaling resilience to global economic downturn. Unemployment rates and the ratio of jobseekers to vacancies are close to multi-year lows while wage growth remains strong, suggesting that several major central banks, despite acknowledging the risk of recession, will not likely pivot away from their steady pace of tightening any time soon, as they remain resolute in restoring price stability on a sustained basis and protecting their credibility.

Figure 1: The OECD Composite Leading Indicator points to continued loss of global growth momentum



Source: OECD, Eurobank Research

Figure 2: OFR stress index at its highest level since mid-2020



Source: OFR, Eurobank Research

That said, with the BoJ remaining a dovish outlier, a number of major central banks continued to tighten policy in September, including the Fed, with a third 75bps rate increase and a notable upward revision in its dot plot, seeing the federal funds rate reaching a terminal level at 4.60% early next year. Additional rate tightening combined with the announcement by the UK government of an expanded, debt funded, fiscal plan that raised market concerns about the economy's fiscal sustainability and a read-through of the UK turmoil to the rest of the world, led to a further tightening in global financial conditions. The above was predominately driven by the equity market sell-off and US dollar appreciation, with the latter threatening a further worsening in inflationary pressures and macroeconomic instability in the global economy.

Developed Economies

US: According to the third estimate, GDP for Q2 was unrevised at an annualised rate of -0.6%, after contracting by -1.8% in Q1, continuing to meet the formal definition of a technical recession. Perhaps most notably, the corresponding estimates of H1 GDI were revised lower, and although they still suggest that economic activity in H1 could be stronger than the 1.1% annualized decline shown in the corresponding GDP estimates, their discrepancy has narrowed significantly, undermining the argument of some FOMC officials that GDP estimates potentially underestimate underlying economic activity. Looking ahead, activity data pertaining to Q3 GDP have been mixed, indicating that underlying growth is slowing, though still decently. Meanwhile, price pressures remain elevated, with core CPI rising by 6.3%YoY in August from July's 5.9%YoY and not far from April's 40-year high of 6.5%, while core PCE accelerated to 4.9%YoY from 4.7%YoY. Not surprisingly, Chair Jerome Powell retained a hawkish tone at the September post-meeting press conference, making clear once again that, though chances of a "soft landing" have declined, the Fed remains highly committed to restore price stability. To that end, it intends to push the fed funds rate further up into restrictive territory and hold it there "for some time" while awaiting convincing evidence that the labor market is softening, and inflation is on course to return to the 2.0% target on a sustained basis.

Euro area: Eurozone GDP growth was remarkably strong in H1 2022, partially favored by pent-up demand after the reopening of the economy. But since April/May, economic activity appears to be losing momentum as the re-opening effect starts to fade, while signals of a looming recession are flashing since July as Europe's energy crisis takes its toll, record high inflation erodes consumer purchasing power and the ECB joins other major central banks in monetary policy tightening. Thought the situation is highly uncertain, depending on a number of factors, including how cold this winter will be and the availability of alternative sources of gas or/and substitution by oil and coal, continuing EU progress in filling up gas reserves with stocks currently above 85% of capacity on EU average (already above the 80% minimum required by November) and the wide variety of policies adopted by member states to tackle the energy crisis, support optimism for a shallower recession than earlier feared. Despite the deteriorating growth outlook, ECB communications remain hawkish, supporting expectations of further aggressive rate tightening in the near term to prevent a further worsening of the inflation outlook, as price pressures continue to rise, with headline PI hitting a new record high of 10.0%YoY in September.

Emerging Economies

CESEE: Marching into Q4 and while waiting for the first flash Q3-2022 GDP growth estimates in late October, the overall impression is that regional economies have fared well in the first half of the year, with private consumption remaining resilient against the strong inflationary pressures at play the last 12 months. However, with winter ante portas, the energy uncertainty remaining high, the geopolitical tension remaining unabated and the global financial conditions heading for further tightening, prospects at the turn of 2022 and for 2023 have deteriorated. While the first half of 2022 is expected to fuel the remainder or the year with some positive carry over effect, the latter is not expected to prove sufficient for 2023, amid the aforementioned elevated risks and the already deployed economic policy mix, both fiscal and monetary. Along these lines, both the World Bank and the EBRD in their recently released outlooks, revised downwards the 2023 GDP growth forecasts, compared to those in the summer. At the same time, regional central banks navigate unchartered waters as regards the levels of inflation and the slowdowns risks looming ahead with CPI prints for at least the past six months registering historic highs. The tightening process in the region has gained a multispeed character, based on the country-specific characteristics of each economy and the limitations those pose on the available economic policy space; tightening cycles in some peers are continuing while others could be approaching the end. That said, during the past month, Central Banks in Hungary, Romania and Serbia proceeded with key policy rate hikes while those in Poland and Czechia held fire, adopting a wait and see stance, despite the almost double-digit difference between the recent inflation prints and the key policy rates which leaves real interest rates in both economies on negative grounds.

CESEE Markets Developments & Outlook

Bulgaria

Yield spreads opened up significantly in the global markets, following the higher-than-expected inflation as well as the ongoing invasion of Ukraine by Russia. Eurobond yields continued their upward trend across all maturities; 2027-2028 tenors posted 145 and 167 bps increases, respectively. The longer maturity bonds, namely the 30 and 35-year marked 147-169 bps increases, while the 50-year yield rose by 124 bps. On the short-term spectrum, the 2024 Eurobonds spiked by 73 bps. Yields of local papers picked up also. The 3-year and the 7-year tenors rose by 154 and 198 bps respectively, while the 15-year tenor increased by 219 bps. The Ministry of Finance held two auctions on the local market, reopening a 10.5-year government security and issuing a new 5.5-year paper. Two new Eurobonds were also issued through a common offer with two tranches, totaling to EUR2.25bn. The first tranche reached EUR1.5bn of 7-year titles, carrying a 4.125% coupon, while the second tranche pertained to EUR0.75bn of 12-year papers with a 4.625% coupon.

Serbia

The dinar is confronted with appreciating pressures during the last two months. Given that nor the FDI flows so far in 2022 outperform those of 2021 or the trade balance has improved, on the contrary it has deteriorated, we read beneath the appreciating dynamics the increased demand for dinar by Russian retailers and corporates, given Serbia's reluctancy to adopt the EU sanctions against Russia. In the near-term future, appreciating pressure could persist but in case the EUR/RSD cross surpasses the 117.50 level, an intervention in the FX market by the National Bank of Serbia cannot be ruled out, in the latter's effort to maintain the currency within its recent trading range between 117.30-117.50.

In the fixed income space, yields of Eurobonds increased during September with the 5-year tenor ending the month at 8%, marking, thus, a 150bps yield increase on a monthly basis. The spike was strongly driven, inter alia, by the warning of the European Parliament to suspend the EU membership talks as the government refuses to adopt the common sanctions against Russia. Yields of local papers behaved more quietly, posting on average milder increases of 50bps on a monthly basis, resulting in the 3.5-year, 5.5-year and 10-year bonds currently trading at 6.60%, 7.20% and 7.70%, respectively.

Markets View

Foreign Exchange

EUR/USD: USD strengthening across the board during September, supported by a risk-off sentiment, led EUR/USD close to the 0.95 level. However, USD gave up some of its gains during the last days of the month as risk sentiment improved and closed near the 0.98 handle. Going forward, central bank policy and key economic releases will dictate the path. We are of the view that the pair will experience a consolidation around this level, with a trading range spanning 150pips, and in case of trend – break out scenario, the breaking above parity one would be the more favourable.

EUR/GBP: After the rapid move of the last days above the 0.90 level, the pair has reversed the gains back towards the 0.86 territory - mostly affected by official announcements about the UK tax-cut program. We retain a neutral view on the pair, meaning a consolidation around the 0.87 territory with moves of 1-1.5% for the upcoming months while official macros will be swinging the market's sentiment about the economies' growth outlooks and the policy makers will try to calm things down in the meantime.

Rates

EU: EU interest rates increased sharply in September, with the 10y swap rate trading at 300bps, up from 240bps in the beginning of August. The slope of the curve has decreased with 5s-30s trading at -75bps, down from -30bps at the beginning of the month, and having printed a low of -90 bps in mid-September. Looking forward, we expect EU rates to remain volatile and eventually move to higher levels as inflation in the Eurozone reached 10%YoY in September, setting a new record high, according to preliminary data released by Eurostat. The European Central Bank is under pressure to deliver another 75bps increase in interest rates at the upcoming meeting on October 27.

US: US rates closed significantly higher in September, especially at the short tenors. The 10yr swap rate is trading at 380bps, up from 320bps at the beginning of September. The slope of the curve decreased sharply with 5s30s trading close to -75bps, down from -35bp at the begging of the month. Looking forward, we expect rates to stay at high levels, as the Federal Reserve announced in September a third consecutive "jumbo" 0.75 percentage point rate hike and is expected to hike more, to discourage spending and eventually reduce inflation, which remains still at very high levels (above 8.0%YoY).

Emerging Markets Sovereign credit

An even more hawkish FOMC, an escalation of the war in Ukraine, and the new fiscal directives in the UK have added to an already complex global scenario, exacerbating fears of recession and pushing EM sovereign yields close to mid-July highs. The EMBI Global Index closed at 469 bps at the end of September, 48 bps wider on the month. CEEMEA performed very poorly, remaining the underperformer in the EM space.

In Hungary, the NBH raised its policy rate by 125bps to 13%, which was larger than expected, but said that this is the end of the hiking cycle, while in Turkey, the CBT reduced its policy rate by 100bps, from 13% to 12%. In Latam, spreads ended also wider, but outperformed their CEEMEA peers. In Brazil, presidential elections will be decided in a second round on 30 October between incumbent President Bolsonaro on the right and former President Lula on the left, with election results so far showing greater support for Bolsonaro compared to the polls. In Asia, China continued the expansion of government spending to support economic growth this year as business confidence has been hit by Covid curbs and other headwinds. We stay on the sidelines concerning EM fixed income, as the global macro has turned gloomy.

Corporate credit

Europe's IG credit spreads were significantly wider during the period from 1/9/22 to 3/10/22, despite September starting on a decent risk-on tone. As the month progressed, growth and inflation/rate worries, as well as CBs actions weighted on markets. EU IG credit spreads ended the month around +10/40bps wider, with a decent dispersion between sectors, while CDS indices ended +8bps wider in IG and +14bps wider in HY (on a roll adjusted basis).

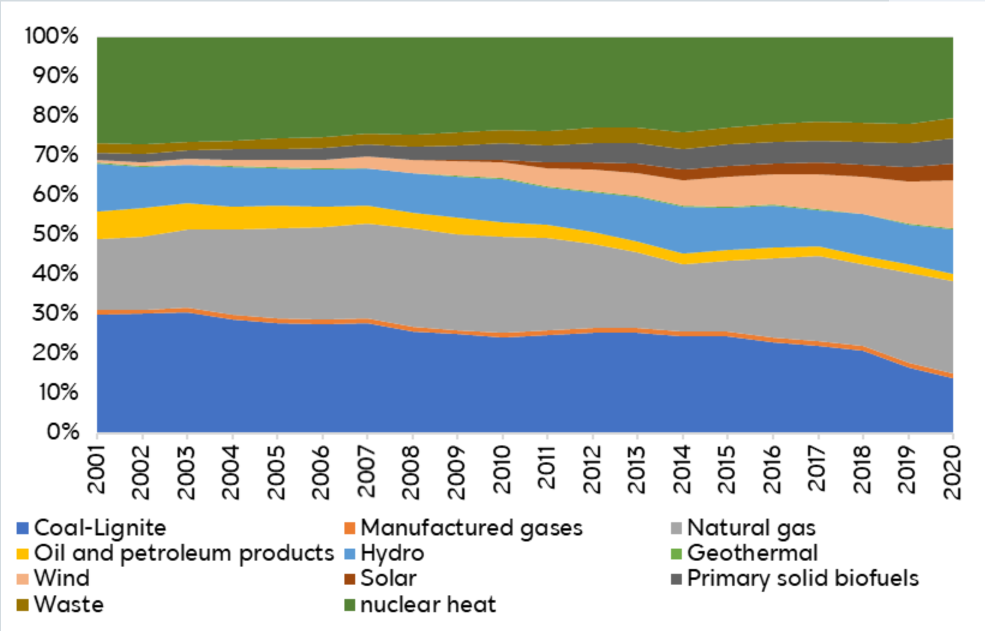
Sector-wise, in EUR IG, Financials were around +22bps wider, Real Estate +44bps wider, Energy +13bps wider, Health Care +5bps wider, Telecoms +11bps wider, Industrials +15bps wider, Consumer Goods +10bps wider, Utilities +16bps wider, Technology +3bps wider and Basic Materials +15bps wider. US IG credit spreads were around +20/30bps wider in the same period. Specifically, Financials were +30bps wider, Real Estate was +25bps wider, Energy +25bps wider, Healthcare +20bps wider, Telecoms +25bps wider, Technology +20bps wider, Industrials +22bps wider, Consumer Goods +24bps wider, Utilities +27bps wider, while Basic Materials were +31bps wider.

Rating grade wise, EUR IG BBB were +21bps wider, A were +12bps wider, AA were +9bps wider, and AAA were unchanged. US IG BBB were +27bps wider, A were +23bps wider, AA were +17.5bps wider, and AAA were +15bps wider. Moving into Q4 22, markets are expected to remain volatile and erratic, with inflation, growth and higher rates being/remaining the key themes. The likelihood of a recession in the EU has increased significantly, with the debate shifting towards its magnitude. We expect spreads to remain very volatile and move moderately wider than-YtD-wide levels by year-end, with wider potential idiosyncratic spikes, mainly driven by illiquidity and the total absence of risk appetite in a rapidly deteriorating macro environment.

Special Topic: EU policy responses against the energy crisis

The source (raw material) mix of electricity and heat production in the EU has significantly changed over a period of 20 years (2001-2020). A gradual, structural shift has taken place in the sources used, turning to renewable sources and natural gas (Figure 3) from fossil fuels (coal, lignite, oil and petroleum products) and nuclear heat. The Commission's Green Paper released in March 2006 laid down the foundations for this transformation.[1] The initial targets of the Energy Policy for Europe pertained to a low-carbon economy in the EU, increased competition in the energy markets, improved security of supply, and improved employment prospects.

Figure 3: Electricity and heat production in the EU gradually turned to renewable sources and natural gas from fossil fuels and nuclear heat



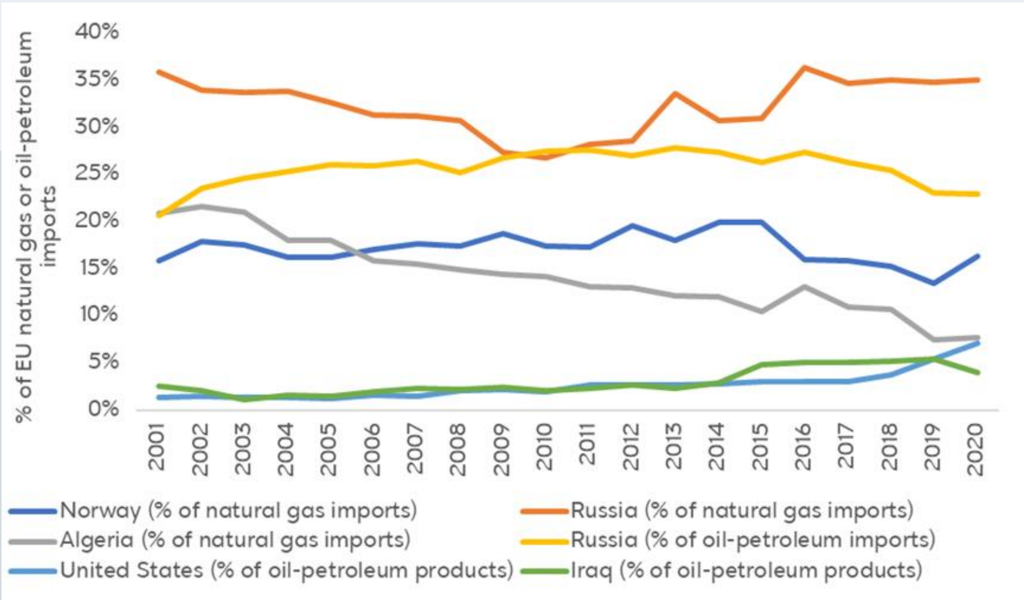
Source: Eurostat, Eurobank Research

The increase in the use of natural gas for electricity and heat production in the EU in the 2001-2020 period, and gradually in transports, was mainly covered with imports, coming from Russia, Norway, Nigeria and Qatar. The three former countries and Algeria held prior to the pandemic the four biggest shares to EU natural gas imports (compressed and liquified form, Figure 4). During the same period, the already high imports of oil and petroleum products widened further, mainly due to an export boom of manufactured petroleum products, as refineries in the EU improved their market shares in nearby regions (e.g., Balkans, Southeast Mediterranean), but also because the inland primary production of such products almost halved between 2001-2020 (-49.7% in GWh terms) and fell shorter of the domestic demand. The widened import demand was mainly covered from the United States, Russia, Iraq and Kazakhstan. The three former

[1] https://europa.eu/documents/comm/green_papers/pdf/com2006_105_en.pdf

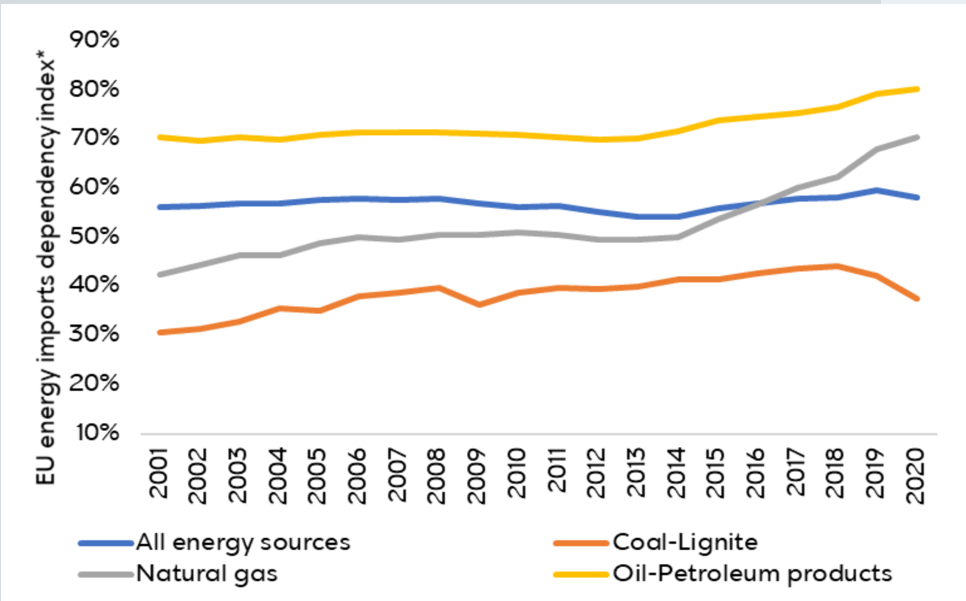
countries and Nigeria held prior to the pandemic the four biggest shares to EU oil and petroleum products imports (Figure 4).

Figure 4: Prior to the pandemic, the EU imported natural gas mainly from Russia, Norway and Algeria and oil - petroleum products from the United States, Russia and Iraq



Source: Eurostat, Eurobank Research

Figure 5: The increase in the use of natural gas in the EU and falling production of oil and petroleum products, strengthened the energy dependency on imports



* The energy imports dependency index (overall and per source) is calculated by the share of net imports to gross domestic consumption, i.e., the sum of domestically produced energy and net imports

Source: Eurostat, Eurobank Research

As a result of higher imports of natural gas (+47.2% in 2019 compared to 2001, in cubic metres terms) and oil and petroleum products (+5.5% in tonnes terms), the EU became more dependent on energy imports, with the relevant index for natural gas increasing by 28 pps in the said period, whereas the energy dependency on oil and petroleum products spiked by 10 pps (Figure 5).

The re-opening of the global economy in Q2 2021 came with a much stronger rebound than earlier expected. The strong recovery highlighted all the bottlenecks caused in the supply chains by the prolonged lockdowns. On the back of accommodative monetary policy by the major central banks and ample fiscal support, the recovery in the EU and globally was strong in 2021 (5.2% YoY and 6.1%YoY, respectively), albeit uneven between the most developed and the developing economies. In any case, prior to the outbreak of the Russian war in Ukraine, both oil and natural gas prices exceeded their pre-pandemic levels. For this reason, since Q4 2021, countries in the EU implemented measures to tackle the effects of increasing energy prices on households' purchasing power.

After the invasion to Ukraine, energy and other commodity prices soared, as Russia produced ca 11% and 17% of the global oil and natural gas consumption. In addition, Russia and Ukraine held large shares of world exports of metals such as palladium (19%), platinum (13%), nickel (14%) and aluminum (6%). Regarding sanctions imposed up to September 2022 on Russia's energy sector, Canada banned oil imports a few days after the war started, with the US following in early March, while at the same time, the United Kingdom decided to phase out imports of Russian oil products by the end of 2022. In early-June, the EU proceeded to a ban on imports of crude oil and refined petroleum products. On the other side, Gazprom gradually cut most of its natural gas exports to Europe, with the most drastic steps towards this direction being the reduction of flows through Nord Stream 1 from 40% to 20% of capacity on July 25th and the complete suspension of gas supplies through the same pipeline from September 1st. However, Russian natural gas flows continue through Turkstream towards Hungary, Greece and the Balkans. Also, notwithstanding the war between the two countries, Gazprom continues using pipelines in Ukraine managed by the Ukrainian Naftogaz, although legal disputes have risen among the two companies on gas transit fees.

Besides policy reactions to reduced energy supplies at country level, especially in countries with high energy dependency from Russia (e.g., Germany, Italy), policy responses at the EU level to the energy crisis have been routed or are already implemented. On May 12th, the European Commission presented REPowerEU, a plan to rapidly reduce dependence on Russian fossil fuels and put on a fast forward mode the green transition. The latter target is aimed through energy savings, diversification of energy supplies, and accelerated roll-out of renewable energy to replace fossil fuels.[2] At the end of June, the Energy Council adopted a regulation aiming to ensure that gas storage facilities in the EU are filled before the winter season and can be shared between member states.[3] The regulation provided that the Union will attempt collectively to fill 85% of the total underground gas storage capacity in the EU in 2022 by November 2022. As gas storage capacity varies sizably among member states, they can partially meet the storage target by counting stocks of liquefied natural gas (LNG) or alternative fuels. On July 26th, the EU energy ministers reached an agreement on a voluntary reduction of natural gas demand by 15% this winter.

As previously presented, developments regarding gas supplies from Russia escalated rapidly since the end of July, including lately a possible sabotage in various parts of Nord Stream 1 and 2. Triggered mainly by

[2] EU Save Energy Communication: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2022%3A240%3AFIN
[3] https://data.consilium.europa.eu/doc/document/PE-24-2022-INIT/en/pdf

the Nord Stream 1 shutoff, the president of the EC, Ursula von der Leyen, presented on September 14th a set of propositions to address persistently high energy prices.[4] Many politicians, think tanks, analysts etc. had already called for various forms of price caps, e.g. on imports of Russian gas, on all the EU gas imports. Such a policy response was not included in the proposal by the president of the EC, which consists of the following points:

1) Energy savings: Member states are asked to reduce gas and electricity consumption by 10% with an additional 5% during peak hours.
2) Joint gas storage: As of end-September average natural gas storage capacity across Europe stood at 86%, exceeding the EC goal for 80% at end-October.
3) Taxes on fossil fuel companies: The EU will impose additional taxes on fossil fuel suppliers given that the current crisis partly fuels higher profits from surging oil and gas prices.
4) Price cap on electricity generated by non-fossil fuels: The EU proposes a €180/MWh day-ahead wholesale price cap for low production cost technologies. The scheme is expected to bring some €140bn in excess revenues that would be redistributed to the final energy consumers.
5) Hydrogen: €3bn funds to facilitate hydrogen development to switch from a niche market to a mass market product.

Propositions nos. 1 and 2 aim at strengthening energy savings and energy adequacy throughout the EU in the coming winter. Proposition no. 5 moves towards the same direction, albeit in a long-term horizon. The aim of proposals nos. 3 and 4 is the redistribution of high profits, mainly towards households and SMEs.

Price capping on electricity for low-cost technologies is probably the most complex and debatable measure. In general, the electricity production from various sources-technologies enters the wholesale market according to the merit order, a way of ranking sources based on the ascending order of marginal cost of production and sometimes of released pollution. Thus, the electrical energy sources with the lowest marginal costs are the first ones to be brought online to meet power demand, at the price set by the most expensive technology, whereas the plants with the highest marginal costs are the last to be brought online. The former sources and related technologies include wind, solar and hydro power production units, nuclear power and lignite power plants, whereas the latter include coal and gas-fired power plants. In the current period, the technology with the highest marginal cost is the gas-based one. Given this process of market entry, the issue of why production technologies which are profitable at a relatively low price should get a much higher price has arisen.

The relevant EC proposal splits the merit order into two; one part for the previously presented low-cost energy sources-technologies and another part for the high-cost ones. A day-ahead wholesale price cap is proposed for the former, at €180/MWh. The wholesale power market will continue clearing at the high price set by the gas plants, but utilities with lower costs will need to pay back the difference between the market price and the price cap to a fund. For example, if the market clears at €350/MWh, low-cost utilities will have to pay back €170/MWh, which is called the inframarginal price. Consequently, this proposal is not a price cap for end users, but a revenue cap for utilities with low-cost technologies. The justification for this market intervention is that the operators of these utilities did not anticipate at the time of investment such high revenues and are currently making excess profits.

[4] 2022 State of the Union Address, SPEECH/22/5493: https://ec.europa.eu/commission/presscorner/detail/ov/speech_22_5493

The EC price cap proposal has received various critiques. At €180/MWh it is likely to cover not only the marginal, but also the total cost of most of the cheaper technologies, especially of those based on sun and wind. The total cost of power- generating assets is usually approximated by the life-cycle-cost of electricity (LCOE, or Levelised Cost of Electricity), a measure of the average total electricity costs of such an asset over its full life cycle. However, the price from the merit order needs to be high enough to cover the LCOE of all power generating assets, especially in the long run. Based on this cost calculation metric, the proposed cap of €180/MWh is considered by some energy market experts insufficient to cover the full and unsubsidised costs of new nuclear and hydro plants, the main reason being that these projects tend to be very capital intensive. From a broader point of view, the proposed price cap only applies to the day-ahead-market on which approximately 20-30% of the power is traded. European power generators tend to pre-sell about 80% of their future power production, e.g., through one-year ahead future contracts, to large companies. Hence, most of their revenues will not be impacted in case this cap is applied. This part of supply is currently hedged at prices well below the cap (in the range of €30-85/MWh). On the other hand, these facts imply that the cap will be imposed on part of the -non-fossil based- energy production, headed mainly for the needs of households and SMEs, which are supposed to be at the epicenter of the recent EC propositions. Thus, the cap seems to be well-targeted, albeit it is inadequate to cover a big part of the energy production for the economic agents of interest.

Alternative proposals made on price capping should also be treated cautiously, as they entail possible sources of further turmoil in the EU energy supply. Indicatively, a price cap on Russian gas could be considered as a trade policy and could result in a full halt of gas supplies by Russia to Europe and request for compensation. For such a policy measure the relevant agreements and the escape clauses in them should be considered. A price cap on all the EU gas imports would also be imposed on LNG imports that are much more costly to produce than compressed natural gas, and thus pose risks to energy supply.

Turning to the issue of strengthening energy adequacy for the coming winter, despite some considerable uncertainties ahead (winter duration-intensity), the current gas supplies of some of the major EU economies (e.g., Germany, Italy), are expected to be largely depleted by end-February or end-March, even if some mild rationing is applied (e.g., 10% reduction in total gas consumption). Some other big European countries (e.g., Netherlands, Poland) may also face shortages. The current, very low level of gas flows makes it very difficult to refill storages during autumn 2022/winter 2023. Accordingly, some proactive actions are expected, from national energy agencies and governments to the EU. These could be in the following directions:

- Rationing on consumption: Numerous scenarios have already been examined from analysts, mainly at country-level. The mix of primary energy consumption and which sectors are the largest consumers of the main energy sources used in each country, are among the main parameters of such plans. The public sector will also be impacted, while pressures on households will be milder in most cases. Inevitably, such plans will come at a significant cost for growth.
- Recarbonisation (temporarily): Substitution of gas-fired power plants with coal-fired plants. Netherlands already lifted the 35% production cap on coal plants. Poland and Germany have the capacity to proceed to full substitution of gas-fired plants, and to a lesser extent, Portugal, Spain and the Netherlands. The main possible deterring factor for this switch is whether enough coal is available, given the production cuts in the previous years.

- More LNG supplies and speeding up the installment of LNG terminals: After months of negotiations, Germany reached an initial agreement with Qatar and the United Arab Emirates in late-September for the supply of LNG.
- More energy production based on nuclear power (temporarily - e.g. France, Belgium). However, maintenance issues and plant closures prevent full utilisation of nuclear power plants.

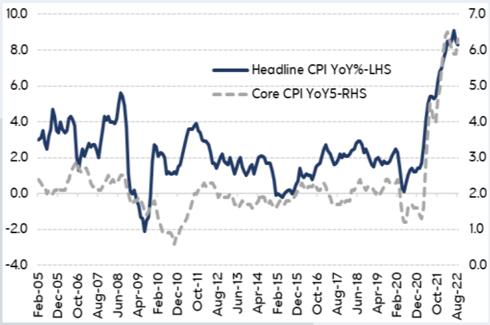
Considering the above, in the period ahead some very crucial policy decisions will have to be made, amid the geopolitical tension remaining unabated and as winter approaches.

US

Robust price pressures force the Fed to keep raising rates to restore price stability

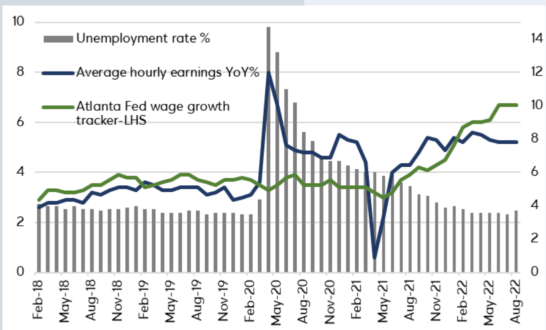
According to the third estimate, GDP for Q2 was unrevised at an annualised rate of -0.6%, after contracting by -1.8% in Q1, continuing to meet the formal definition of a technical recession in the first half of the year. Perhaps most notably, the corresponding estimates of H1 GDI (a theoretically equivalent measure of GDP formed using the income side of the economy) were revised lower, showing an increase by an annualized rate of 0.8% in Q1 and just 0.1% in Q2, significantly lower compared to 1.8% and 1.4%, respectively, earlier estimated. That said, though GDI estimates still suggest that economic activity in H1 could be stronger than the 1.1% annualized decline shown in the corresponding GDP estimates, their discrepancy has narrowed significantly, undermining the argument of some FOMC officials that GDP estimates potentially underestimate underlying economic activity. Looking ahead, activity data pertaining to Q3 GDP have been mixed, indicating that underlying growth is slowing, though still decently. Among others, the composite PMI dropped in August further into contractionary territory, real consumption spending rose by a meagre 0.1%MoM in September with the savings rate below pre-pandemic levels at 3.5%, most housing-related indicators remained in a downward trend pressured by higher mortgage rates, while the ISM services index dropped less than expected in September to a still solid 56.7, Conference Board consumer confidence increased in September for the second consecutive month, while nonfarm payrolls have averaged a robust 381k over the last six months with the unemployment rate at 3.7% in August, not far from July's 2 ½ year low of 3.5%. Meanwhile, price pressures remain elevated, with core CPI rising by 6.3%YoY in August from July's 5.9%YoY and not far from April's 40-year high of 6.5%, while core PCE accelerated to 4.9%YoY from 4.7%YoY. Not surprisingly, Chair Jerome Powell retained a hawkish tone at the September post-meeting press conference, making clear once again that, though chances of a "soft landing" have declined, the Fed remains highly committed to keep raising rates to restore price stability. To that end, it intends to push the fed funds rate further up into restrictive territory and hold it there "for some time" while awaiting for convincing evidence that the labor market is softening and inflation is on course to return to the 2.0% target on a sustained basis.

Figure 6: Accelerating underlying price pressures



Source: BLS, Eurobank Research

Figure 7: The labor market remains tight



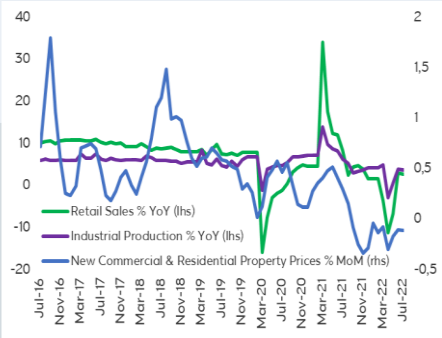
Source: BLS, Eurobank Research

China

Limited optimism over a broad-based economic recovery

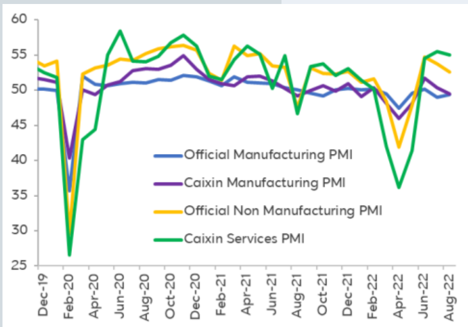
Marching into Q4-2022, August's hard data allow only for limited optimism over a broad-based recovery, following the loss of steam in the economy, evident in July and analysed in our previous issue. Retail sales expanded by 5.4% YoY in August, from 2.7% YoY in July, beating to the upside the market consensus of 3.3% YoY. Beneath the improvement we read the enforcement of a more 'dynamic' zero tolerance policy according to which lockdowns are more targeted and restrictions on domestic traveling are somewhat eased, resulting in domestic demand picking up. However, same month's data referring to the real estate sector, which accounts for almost one third of the country's GDP, point to a lingering crisis. In detail, property investments between continued to shrink by 7.4% YoY for a fifth month in a row in August and new home prices continued their decreasing streak (-0.3% MoM in August vs -0.1% MoM in July), which started to unravel one year ago, when the distressed financial standing of Evergrande came into the spotlight. Furthermore, exports' increase decelerated strongly to 7.1% YoY in August compared to 18.0% YoY in July, boding well with the deterioration in the global financial conditions and the extended period of subdued growth the global economy has entered. Looking at September's forward-looking data, the picture is mixed; The official manufacturing PMI came in marginally above the contractive territory (50.1), improved, however, compared to the previous month (49.4) and above the 49.7 market expectation. The 50.6 non-manufacturing PMI may have come below market consensus (52.4) and previous month's reading (52.6) but the signals sent by its two key subcomponents are opposite; the constructions arm picked up sizably, coming in at 60.2 from 56.5 in August, with the improvement grounded on the government-financed investments in an effort to back the economy with the use of public expenditure. On the flipside, the services component dipped into contraction from 51.9 in August to 48.9 in September. According to a governmental statement that came along with the data release, the retreat came on the back of protective measures against Covid. Along these blurry lines, the 20th congress of the Chinese Communist Party is scheduled for October 16, where President Xi Jinping is expected to secure an unprecedented third term at the helm and some moderations on the zero covid policy could be also anticipated.

Figure 8: Zero covid policy and real estate crisis weigh on the economy...



Source: Bloomberg, Eurobank Research

Figure 9: ...while forward looking indicators send mixed signals



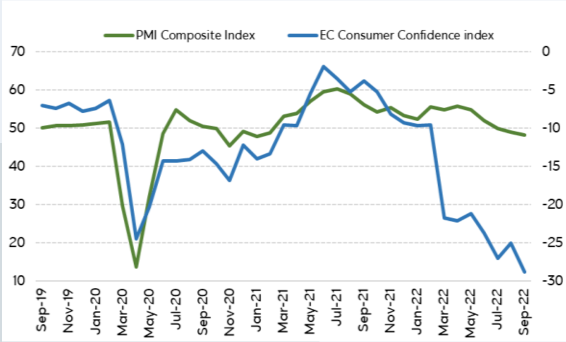
Source: Bloomberg, Eurobank Research

Euro area

Winter recession risks amidst soaring inflationary pressures

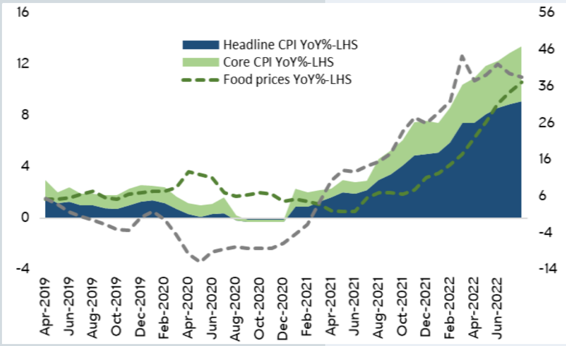
Eurozone GDP growth was remarkably strong in H1 2022, growing by 0.7%QoQ in Q1 and 0.8%QoQ in Q2, more than twice the pace of potential growth (0.3%QoQ) partially favored by pent-up demand after the reopening of the economy. But since April/May, economic activity appears to be losing momentum as the re-opening effect is fading, while signals of a looming recession are flashing since July as Europe's energy crisis takes its toll, record high inflation erodes consumer purchasing power and the ECB joins other major central banks in monetary policy tightening. Retail sales rose by a lower than expected 0.3%MoM in July, recovering only part of June's 1.0%MoM decline, while industrial production dropped by a near one-year high of 2.3%MoM over the same month and further weakness seems likely in the period ahead as a slowdown in China's growth should add to energy woes and supply-chain issues. Looking ahead, high frequency indicators suggest that economic activity continued to deteriorate, with the economy likely heading for a recession in Q4 after a slightly positive GDP growth rate in Q3. Eurozone PMI composite dropped for the third consecutive month further into contractionary territory in September to 48.1, marking a cumulative drop of -7.7 in just five months after April's multi-month highs, and EC consumer confidence deteriorated sharply last month falling by a substantial 3.9 to a new all-time low of -28.8. Thought the situation is highly uncertain, depending on a number of factors (e.g. how cold this winter will be, the availability of alternative sources of gas or/and substitution by oil and coal), continuing EU progress in filling up gas reserves with stocks currently above 85% of capacity on EU average (already above the 80% minimum required by November) and the wide variety of policies adopted by member states to tackle the energy crisis, support optimism for a shallower recession than earlier feared. However, despite the deteriorating growth outlook, ECB communications remain hawkish, insisting that rates are still far away from levels appropriate to bring inflation back to the 2.0% medium-term target, supporting expectations of further aggressive rate tightening in the near term to prevent a further worsening of the inflation outlook as price pressures continue to rise, with headline CPI hitting a new record high of 10.0%YoY in September.

Figure 10: Forward looking indicators hint at Q4 GDP contraction



Source: EC, Bloomberg, Eurobank Research

Figure 11: Headline CPI hit double digits in September



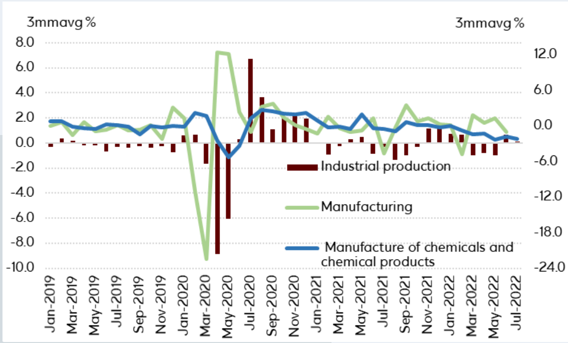
Source: Eurostat, Eurobank Research

Germany

Signs of a recession as the energy crisis is taking its toll

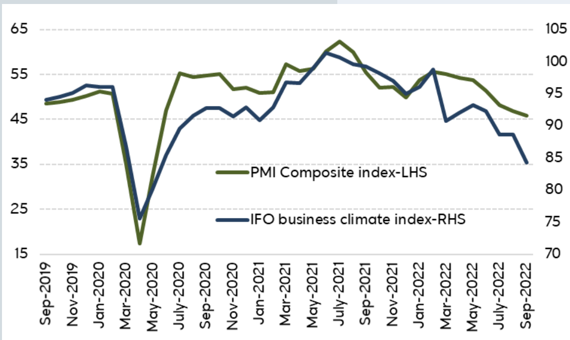
Real Q2 GDP grew by a meagre 0.1%QoQ, with the German economy undeperforming its major EA peers in spite of the removal of the remaining Covid-19 related restrictions. Looking ahead, as suggested by further deterioration of several hard data and high frequency indicators pertaining to Q3, the growth outlook looks gloomier, with the economy likely heading for recession, as the intensified EU energy crisis and higher electricity prices weigh heavily on the economy, given its high reliance on Russian gas and its large energy-intensive industrial base (Russian gas accounts for over half of gas consumption and around 17% of total energy use). Industrial activity has already been hit, with production down by 0.3%MoM in July compared to an average monthly increase of 0.7%MoM in Q2, mainly driven by a decline in manufacturing output, particularly in energy-intensive sectors such as the chemical industry. Higher energy prices, along with a further rise in food prices, the expiry of the fuel discount and the “9-euro ticket”, pushed inflation further up in September, with HICP moving into double-digit territory at 10.9%YoY for the first time in 70 years, eroding further household real income and weighing on real private consumption at a time when savings are back to pre-Covid levels (Q2 2022 at 10.8% after a peak of 20.7% in Q2 2020). That said, the Ifo business climate plunged from 88.6 to 84.3 in September and the composite PMI fell deeper into recessionary territory from August’s 46.9 to 45.7, the lowest level since May 2020. On a similar gloomy note, data from the Federal Statistical Office revealed that energy-intensive companies have already reduced their production by 6.9% since February as the manufacturing of many products is no longer profitable in view of the massive rise in energy prices. Furthermore, even if gas storage filling levels have increased above 85% of their capacity as of mid-September, the risk of gas rationing over the winter cannot be ruled out following the indefinite suspension of Russian gas flows through North Stream 1, especially if consumers are forced to use more gas for heating in case of a very cold winter. Overall, we project 2022 GDP growth at 1.4%YoY after 2.6%YoY in 2021, which implies negative quarterly growth in H2, taking into account that the carry-over effect from 2021 amounts to 0.8%.

Figure 12: High energy prices weigh on industrial production, particularly energy-intensive sectors



Source: Federal Statistical Office, Eurobank Research

Figure 13: Leading indicators consistent with a severe downturn in economic activity



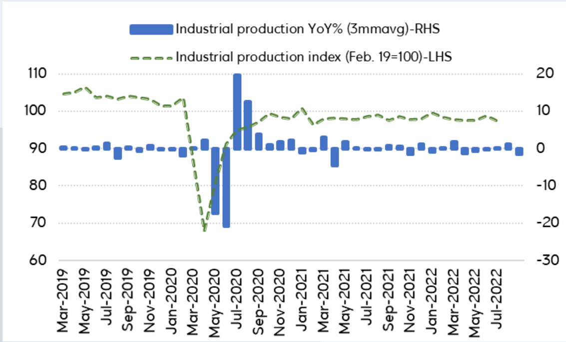
Source: Bloomberg, Eurobank Research

France

Economic recovery continues, though modestly

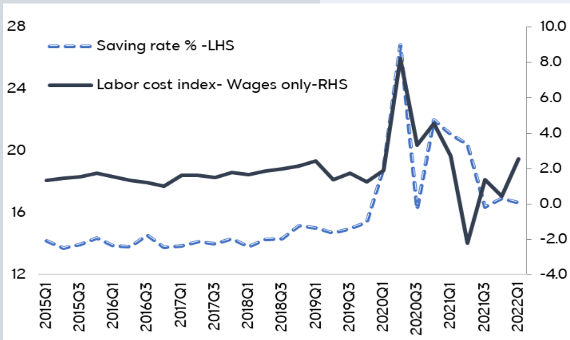
After GDP bounced back in Q2 rising by a firmer than expected 0.5%QoQ owning to the reopening of the economy and following a contraction of -0.2%QoQ in the prior quarter due to the Omicron wave, economic activity continues, although modestly. Industrial production dropped by a higher than anticipated 1.5%MoM in July, the biggest decline in near a year following a strong gain of 1.2%MoM in June, leaving production 6% below pre-pandemic levels as supply chain disruptions, rising energy prices and extended Covid-19 lockdowns in China take their toll (Figure.). Along these lines, the INSEE's business climate indicator for the narrower manufacturing sector fell further in September to a four-month low of 102, though still above its long-term average of 100, and PMI manufacturing dropped to a 28-month low of 47.8 from 50.6 in August on the back of higher energy costs, weakening demand and elevated inventories. However, the outlook of the services sector seems less gloomy, as reflected in the PMI services which surprised on the upside in September, rising to 52.9 from August's 16-month low of 51.2 and taking the composite PMI up to 51.2, likely affected by the parliamentary approval of an additional package of measures worth €26bn (1.0% of GDP) and the PM's announcement for the extension of a cap on energy prices in 2023. Government forceful measures to mitigate the impact of the energy crisis, higher wages following a further 2.01% increase in the minimum wage, high accumulated excess savings (16.6% in Q1 2022), lower inflation than in the rest of the Eurozone thanks to the energy price caps (6.2%YoY in September), strong tourist activity and the economy's relatively low reliance on gas, likely assisted the economy to continue growing in Q3 by a subdued pace of c. 0.2%QoQ, while in Q4, activity is expected to lose further steam with GDP remaining flat as the external backdrop is set to be a drag (Eurozone will likely enter recession), taking the annual rate for the full year to 2.4%. More crucially for the economy's long-term prospects, given the lack of majority in the National Assembly, President Macron will likely face significant hurdles to pass crucial reforms, including a pension reform law that is expected to be submitted to Parliament by early 2023, envisioning, inter alia, a gradual rise in the legal retirement age from 62 to 65.

Figure 14: Poor start to Q3 for industrial production



Source: INSEE Eurobank Research

Figure 15: Excess accumulated savings & higher wages should help support consumption



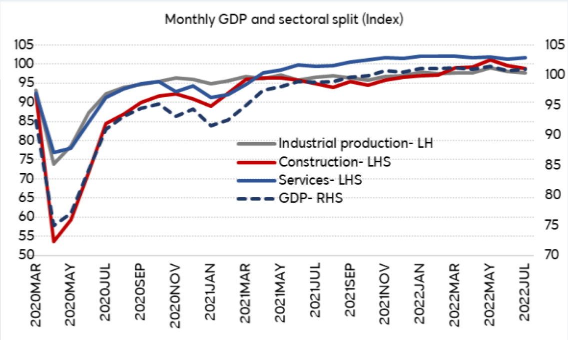
Source: INSEE, Economic Research

UK

New government policies likely to exacerbate medium-term inflation, prompting more aggressive BoE rate tightening

UK GDP grew by only 0.2%MoM in July, recovering around a third of the 0.6%MoM decline in June that was led by the extra bank holiday for the Queen's Platinum Jubilee. The July GDP print translates into a slightly negative carry-over effect into Q3, to the tune of -0.05ppts, suggesting that the economy may have already entered a mild recession. Indeed, GDP growth in September is expected to be weak due to the additional bank Holiday for the funeral of Queen Elizabeth and the cancellation of many events in the period of mourning, while worsening consumer confidence (new record low of -49), the cost-of-living squeeze amid persistently high inflation (CPI at 9.9%YoY in August, close to July's 40-yr high of 10.1%YoY) and the drop of composite PMI below the threshold of 50 in August and September, leave little hope for some partial payback in August from the disappointing July GDP print. Though Q3 recession looks likely, a return of GDP growth to mildly positive territory in Q4 cannot be ruled out, following the government's deficit funding new policies which have raised concerns about the medium-term sustainability of UK public finances, pushing yields sharply higher across the curve and the GBP to record lows against the USD. The announcement of a package of energy relief measures, a larger one than Mrs. Truss had indicated in her leadership campaign, that is estimated to exceed £150bn (or over 6% of GDP), was followed by the reveal of a £43bn (or c. 1.9% of GDP) tax-cutting package (from £45bn initially, before a reversal of the government's decision to abolish the top 45% rate of income tax), the largest tax cuts in 50 years, that include, inter alia, a 1ppt cut in the basic tax rate to 19% and cancellation of the planned rise in corporation tax. With respect to inflation, these policies are likely to have significant downside implications near-term, but medium-term risks seem skewed to the upside as fiscal support of such magnitude means stronger demand and higher core inflation. As a result, the BoE will likely have to raise rates more aggressively to restore price stability, with the market now pricing a terminal Bank Rate from 2.25% currently to 6.0% by this time next year compared with 4.40% expected before the new government policies.

Figure 16: Weak GDP in July has increased risks for negative Q3 growth



Source: ONS, Eurobank Research

Figure 17: Government new policy measures prompted a hawkish shift in BoE rate hike expectations

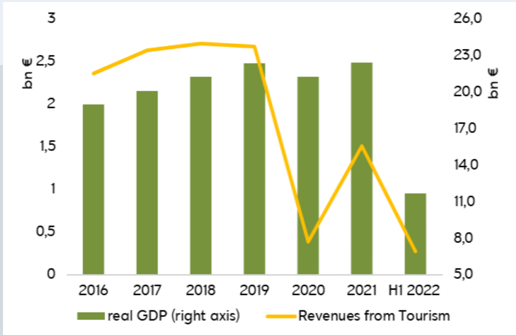
Source: Bloomberg, Eurobank Research

Cyprus

Boosting from tourism continues weakened, investment activity emerges

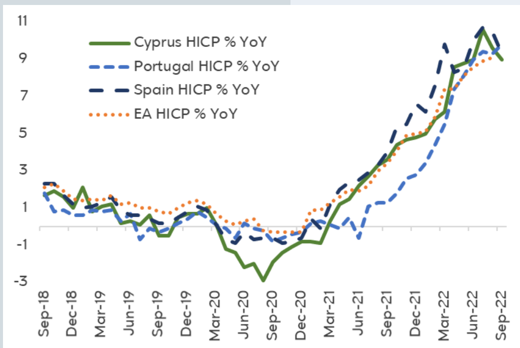
The recent trends in the main determinants of the strong GDP increase in Cyprus in H1 2022 (+6.0% YoY) point to a continuation of the growth momentum in the beginning of Q3 2022, albeit with some weaking compared to previous quarters. The robust activity in the tourism sector continued in July (revenues: +55.4% YoY), slowing down significantly, however, compared to Q2 2022 (+170.0% YoY). The falling annual increase in tourist arrivals in August compared to July (+40.2% YoY vs. +52.9% YoY) signals to a possible further deceleration of the growth in tourism receipts ahead. In the exports of goods front some signs of weakening performance in early-Q3 2022 are also evident, as the increase receded (+18.2% YoY in July vs. +32.1% YoY in Q2 2022). Nonetheless, the deficit in the balance of goods eased, due to a more pronounced decline in the demand for imports (+31.3% YoY in July vs. +50.1% YoY in Q2 2022). This slowdown in imports, together with the subdued increase in the volume of retail trade in July (+0.4% YoY), are possibly attributed to the soaring inflation which posted an all-time high in the said month (HICP: +10.6% YoY), remaining in August above the euro area average for the fifth consecutive month (+9.6% YoY). On the flipside, the expansion of the volume of retail trade in August by 5.1% YoY and the marked improvement of consumer confidence in September, are indicative of the resilience households show towards inflationary pressures. As evident in the significant improvement of the ranking in the Greenfield FDI Performance Index (18th place for 2021, against 68th in 2020), the investing interest from abroad is elevated this year, especially in the software and IT sectors, offsetting partially the decline in some of the key components of gross fixed capital formation in H1 2022 (housing, non-residential construction). Despite deteriorating financial conditions globally, the increase of industrial production in H1 2022 and positive base effects from H2 2021, could also boost investment activity in H2 2022. That said, a worsening of the already adverse geopolitical momentum remains the most significant negative risk ahead, with potential effects stemming primarily from energy prices, household expectations and tourist inflows.

Figure 18: The pivotal role of tourism in the Cypriot economy rebounds



Source: CYSTAT, Eurobank Research

Figure 19: Inflation is marginally higher than the euro area average since past April, weighing on household consumption



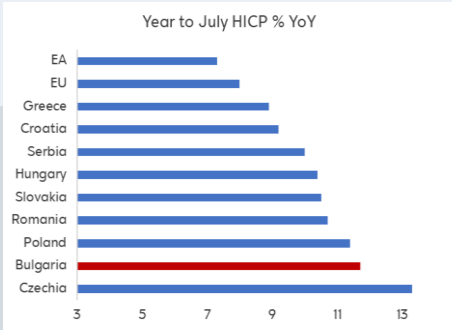
Source: Eurostat, Eurobank Research

Bulgaria

Headwinds for growth at the turn of the year

The major development since our last issue comes from the political stage. In line with recent polls, October 2 elections, the fourth in the last 18 months, led, for once more, to a fragmented parliament of 7 parties, pointing to a continuing difficulty regarding the formation of a stable coalition government. The lead was taken by the centre-right GERB which gathered 25.3% of total votes, followed by the centrist WCC with 20.2% and other five parties (MRF, Vuzrazhdane, BSP, DB and TISP) which all together collected the remaining 45%. In our view, the continuing political instability could undermine the decisiveness needed to push forward the ambitious reform agenda that will allow the economy to i. absorb valuable EU funds from the second disbursement of the RRF in the near-term, ii. prepare adequately for the euro adoption in the medium-term, i.e. most probably in or even after 2024 and iii. unleash the long-term growth potential. In view of the above and taking also into account the strong possibility for another snap election in the next few months, the political risk in the country has increased sizably and requires cautious monitoring. On the economic front, inflation continues to be the key point of concern with evident impact on private consumption, as recent retail sales data reveal (-0.7% YoY and -0.1% MoM in July from +0.1% YoY and -1.7% MoM in June). CPI increased by 17.7% YoY in August from 17.3% YoY in July, recording another historic high in the last 20 years, while no signs of ease were spotted on the monthly print also (+1.2% in August from +1.1% in July). Drivers of the increasing trend remain rising energy and food prices and given the prevailing energy uncertainty as winter approaches, the outlook on inflation and economic growth over the remainder of 2022 and Q1-2023 continues to worry. Nonetheless, the commencement of operation of the gas pipeline between Bulgaria and Greece on October 1 could act alleviating as it enables natural gas flows up to 1bcm to be imported annually from Azerbaijan. Despite the curb of energy uncertainty from the said additional supply which reduces the energy dependence of the country on Russia, headwinds for the economy remain strong, stemming from the above-described political instability and the adverse global economic conditions. With the latter factors at sight, both the EBRD and the WB, in their recently released outlook reports, slashed their GDP growth forecasts for 2023 at the area of 1.5% from ca 2.8% in the summer.

Figure 20: Inflationary pressures, among the highest in the region



Source: Eurostat, Eurobank Research

Figure 21: ...take a toll on the GDP growth

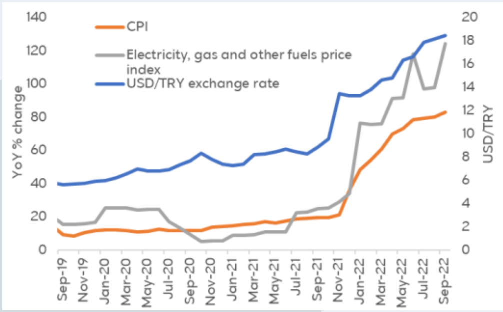
Source: Eurostat, Eurobank Research

Turkey

Further easing of monetary policy, amid soaring inflation and new lira devaluation

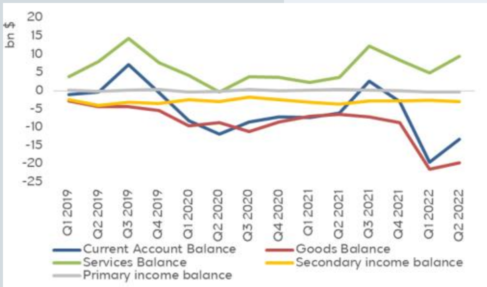
At its regular monthly meeting in September, the Monetary Policy Committee (MPC) of the Central Bank of Turkey (TCMB) cut the policy one-week repo rate for second month in a row, by another 100 bps, bringing it to 12%. The Committee supported its decision in that, although a strong growth was observed in Turkey in H1 2022, since the beginning of July, leading indicators have been pointing to a growth slowdown. Regardless of the MPC's rationale, the annual growth of industrial production decelerated to 2.4% in July, the smallest increase in the last two years. The new repo rate cut came despite the further depreciation of the Turkish lira since the previous cut in mid-August (-2.9% vis-a-vis USD), highlighting the deteriorating investors' confidence, whereas after the latest cut, the lira has depreciated by another 1.4% against the USD. The extensive macroprudential measures by the TCMB on banks concerning loans do not seem to affect their credit policy, as credit expansion on an annual basis accelerated further in July-August 2022, both towards non-financial sector (from 69.7% in June to 81.2% in August) and households (from 37.3% to 40.0%). The lira depreciation weighs on the current account balance. Although exports of both goods and services rose annually in the January-July period, the increase in imports of goods was much sharper, affected also by soaring energy prices, leading to a widening of the current account deficit by 168.1% YoY. Apart from deteriorating the current account balance, the lira devaluation and the increasing energy prices also add to the sustained inflationary pressures, with the inflation rate accelerating to 83.5% YoY in September, a 20-year high. That said, the State subsidisation of energy prices, together with strong increases in wages (+74.2% YoY in Q2 2022) counterbalance somewhat the effects of surging consumer prices on real income. Looking ahead, risks in the medium-term remain mainly on the downside. High inflation will be sustained, e.g., by the forthcoming switch to market pricing for 40% of gas used by large industrial users, also putting a drug on manufacturing production, but the implications for households are expected to be mitigated by wage developments (+29.3% in net minimum wage by July 1st 2022). The lira devaluation will continue supporting exports, but its overall impact on the current account will remain negative. In view of the presidential elections in June 2023, the stance of the fiscal policy will determine sizably the course of economic activity.

Figure 22: Unconventional monetary policy continues, causing further currency devaluation and fueling inflation



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

Figure 23: the lira devaluation improves the services balance, but its overall impact on the current account balance is negative



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	6.1	2.9	2.5	4.7	7.2	4.6									
Advanced Economies															
USA	5.9	1.6	0.8	4.7	8.0	3.8	5.4	3.7	4.2	-3.6	-4.1	-3.8	-10.8	-4.2	-4.0
Eurozone	5.2	2.9	0.2	2.6	8.2	5.1	7.7	6.8	7.1	2.5	1.2	1.7	-5.1	-4.3	-3.5
Germany	2.6	1.4	-0.3	3.2	8.2	5.6	5.7	5.3	5.6	6.7	3.7	4.0	-3.7	-3.5	-2.6
France	6.8	2.4	0.5	2.1	5.8	4.2	7.9	7.3	7.4	-0.9	-1.4	-1.5	-6.5	-5.6	-4.5
Periphery															
Cyprus	5.5	4.2	2.3	2.2	8.5	4.0	7.5	6.0	5.6	-7.2	-8.0	-8.5	-1.8	-0.2	-0.7
Italy	6.7	3.3	0.3	2.0	7.7	4.8	9.5	8.3	8.5	3.4	0.3	0.8	-7.2	-5.7	-5.0
Portugal	5.4	6.1	1.2	0.9	7.4	4.0	6.6	5.8	6.0	-0.7	-1.9	-1.4	-2.8	-2.1	-1.7
Spain	5.5	4.5	1.6	3.0	8.9	4.3	14.8	13.0	13.1	0.9	0.3	0.7	-6.9	-5.5	-4.5
UK	8.5	3.5	-0.2	2.6	9.0	6.5	4.6	3.9	4.4	-3.4	-5.7	-4.8	-7.4	-5.1	-4.9
Japan	1.8	1.6	1.5	-0.3	2.2	1.4	2.8	2.6	2.5	2.8	2.6	2.5	-6.4	-6.9	-4.5
Emerging Economies															
BRICs															
Brazil	4.8	2.5	0.9	8.3	9.3	5.1	13.6	9.9	9.8	-1.6	-1.4	-1.5	-5.1	-6.4	-7.4
China	8.1	3.3	5.0	0.9	2.2	2.3	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	-6.0	-3.0	6.7	14.1	6.9	4.8	5.3	5.3	6.7	10.4	6.8	0.4	-1.7	-2.4
CESEE															
Bulgaria	4.2	2.9	2.4	3.3	14.2	7.2	5.3	5.1	4.9	-0.5	-1.8	-0.8	-4.1	-4.1	-3.5
Serbia	7.0	3.2	3.5	4.1	9.8	6.7	11.0	10.1	9.5	-4.4	-7.5	-6.6	-4.1	-3.5	-2.5
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	3.00-3.25%	3.94-4.20%	4.06-4.30%	3.97-4.20%	3.84-4.10%
3m SOFR	3.61%	3.55%	3.67%	3.53%	3.28%
2yr Notes	4.01%	3.74%	3.67%	3.53%	3.28%
10 yr Bonds	3.58%	3.37%	3.31%	3.25%	3.15%
Eurozone					
Refi Rate	0.75%	1.81%	2.06%	2.05%	2.02%
3m Euribor	1.17%	1.93%	2.15%	2.14%	2.09%
2yr Bunds	1.46%	1.49%	1.57%	1.43%	1.39%
10yr Bunds	1.80%	1.72%	1.69%	1.63%	1.58%
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	0.59%	0.84%	1.15%	1.14%	1.11%
10-yr Bond	0.91%	1.16%	1.24%	1.22%	1.20%

Source: Bloomberg (market implied forecasts)

Research Team

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

Dr. Stylianos Gogos
Research Economist
sgogos@eurobank.gr
+ 30 214 40 63 456

Maria Kasola
Research Economist
mkasola@eurobank.gr
+ 30 214 40 63 453

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr
+ 30 214 40 63 455

Dr. Theodoros Rapanos
Economic Analyst
trapanos@eurobank.gr
+ 30 214 40 59 711

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

Michail Vassileiadis
Research Economist
mvassileiadis@eurobank.gr
+ 30 214 40 59 709

More available research at: https://www.eurobank.gr/en/group/economic-research
Subscribe electronically at: https://www.eurobank.gr/el/omilos/oikonomikes-analuseis/forma-ekdilosis-endiaferontos
Follow us on twitter: https://twitter.com/Eurobank_Group
Follow us on LinkedIn: https://www.linkedin.com/company/eurobank