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After a stronger than expected performance in H1 2023, global GDP growth looks to have moderated in recent months, reflecting increasing drag from aggressive monetary policy tightening. Meanwhile, in spite of recent signs of some easing in price pressures, major CBs are aware that the battle to drive inflation back to target is not over yet and further disinflation progress may prove harder as base effects fade. That said, major CBs retain a tightening bias, sending a clear message that cuts are still way off, and regardless of whether rates have to rise slightly further or have already reached terminal levels, monetary policy should remain sufficiently restrictive for longer to ensure price stability on a sustained basis.

Macro Picture

USA: GDP growth continues to exhibit surprising resilience to tighter monetary conditions

EA: data consistent with stagnation in Q3, after an already lackluster growth performance in H1

UK: clear signs of growth deceleration in Q3 after surprisingly strong Q2 GDP growth

CESEE: after weaker Q2 GDP prints, frail Q3 hard data suggest lower growth in FY2023

Markets

FX: USD favored by interest rates differentials and resilient US job market figures

Rates: EU and US rates may have reached their peak but upcoming inflation data remains key

EM: sovereign fixed income spreads wider as US rates rose and curves bear steepened

Credit: market to remain data-driven, investors count mostly on a soft vs a hard landing scenario

Policy Outlook

USA: the Fed skipped a hike in September, but retained the option to tighten further, if needed

EA: the ECB signaled that its tightening cycle is likely over, but kept its data dependency

UK: BoE rates may have peaked, dependent on wage growth and services inflation progress

CESEE: central banks cautious on next steps given the recent volatility of energy prices and its possible passthrough on inflation

Key Downside Risks

DM: persistent price pressures force CBs to keep rates higher and longer than currently expected; adverse supply shocks in commodity markets reoccur

EM: tighter-than-expected global financial conditions; resurgence of food prices and shortages threaten food sufficiency

Special Topic in this issue:

→ Implications of BoJ's policy adjustment and potentially related future developments

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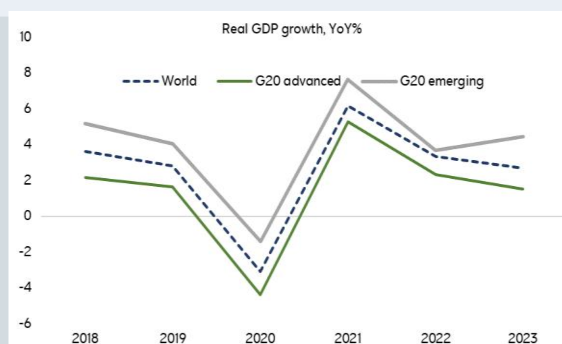
Macro Views
Latest world economic & market developments

Economic growth is moderating, while major CBs keep a hawkish bias, reflecting concerns over inflation remaining high for longer

After a stronger than expected performance in the first half of the year on the back of lower energy prices and China's reopening, global GDP growth looks to have moderated in recent months, reflecting the increasing drag of major central banks' aggressive monetary policy tightening, needed to rein in inflation. Consistent with this narrative, the global composite PMI fell in September for the fourth straight month, by 0.1pts to 50.5, its lowest level since January and further below its long-run average of 53.3, though still slightly above the critical level of 50 between expansion and contraction. More worryingly, a number of forward-looking components fell sharply, including backlogs of work, business optimism and new orders, pointing to risks of further weakness in the coming months. Manufacturing production remained the main drag on economic growth, continuing to contract for the fourth consecutive month (+0.1pts to 49.1), while services PMI dropped to an eight-month low (-0.3pts to 50.8). According to market consensus, the global economy is expected to slow from 3.5% in 2022 to a still positive, though sub-trend pace of 2.8% in 2023, with risks remaining skewed to the downside as several steep challenges prevail. On the inflation front, August CPI data showed that the recent sharp rise in energy prices on the back of supply concerns (as of early October, brent crude was up 17% from its Q2 average) pushed global headline CPI higher. At the same time, global core inflation continued to move further below 2022 highs, though remained sticky above major CBs' comfort zones. Core goods inflation slipped further, reflecting a continued easing of supply chain bottlenecks and ongoing manufacturing sector weakness. Services price inflation also recorded some deceleration, but still remained elevated amid sustained labor market tightness.

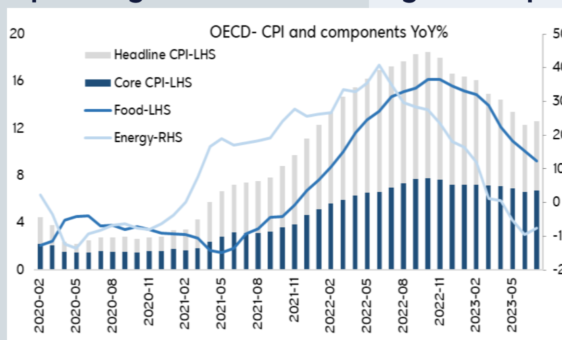
Figure 1: Global economic growth is expected to slow this year



Source: Bloomberg, OECD, Eurobank Research

Meanwhile, major CBs' monetary policy is already restrictive, and policymakers are mindful of lags in the monetary policy transmission and tightening credit conditions. At the same time, they are well aware that the battle to drive inflation back to target is not over yet and further disinflation progress may prove harder as base effects fade.

Figure 2: The recent spike in oil prices pushed global headline CPI higher in Sept.



Source: OECD, Eurobank Research

Amid concerns that inflation will likely remain elevated for a protracted period, they retain a tightening bias, sending a clear message that cuts are still way off, and regardless of whether rates have to rise slightly further or have already reached terminal levels, monetary policy should remain sufficiently restrictive for longer to ensure that inflation continues to gradually decline.

Developed Economies

US: Disinflation is progressing, though at a slow pace, and the labor market is softening gradually, albeit from still tight levels. Moderating price pressures and signs of easing in labor market conditions, allowed the Fed to skip a rate hike at the September policy meeting for the second time this year. However, the pause was accompanied by a hawkish bias, as reflected in both the official statement and the updated dot plot, which continues to signal another 25bps rate hike in one of the two remaining meetings this year along with a slightly later start to rate cuts in 2024, reinforcing expectations of "a higher-for-longer" policy rate path. Undoubtedly, economic activity continues to exhibit surprising resilience to tighter monetary conditions, presumably thanks — according to Fed Chair Jerome Powell — to a higher percentage of fixed rate mortgages and stronger than expected household and business balance sheets, while the neutral rate of interest may be higher than currently projected. GDP grew by a slightly above trend growth rate in H1 2023, while looking into Q3, incoming activity data imply another quarter of solid growth. However, a mild US slowdown is still likely in the coming quarters, starting in Q4, amid an expected decline in personal consumption.

Euro area: Q2 GDP was revised lower by 0.2ppts to 0.1%QoQ, while Q1 was revised up slightly from flat to 0.1%QoQ. This meant that the Eurozone ended up avoiding the technical recession around the turn of the year that was implied by the initial estimates. Nevertheless, the overall picture of the economy is one of sluggish growth momentum, while available data point to sustained stagnation in the coming quarters, as tightening ECB monetary policy is transmitting forcefully to the real economy, external demand remains subdued and persistently high inflation erodes households' purchasing power. Despite lackluster growth, the ECB hiked rates by a further 25bps at the September policy meeting to reinforce disinflationary progress. Headline CPI unexpectedly eased to 4.3%YoY in September from 5.2%YoY in August and core fell sharply from 5.3% to 4.5%YoY, though still remained well above the ECB's target. However, the central bank signaled a pause in the hiking cycle, and, at the same time, maintained its data dependency for further rate decisions, with President Lagarde underlined at the post-meeting press conference that the policy focus going forward will shift towards the duration of restrictive rates rather than the level of terminal rates.

Emerging Economies

EM: assets' weak performance extended further into September, resulting, thus, in the third cautious quarter in terms of returns. Intra-month, key benchmark indices for equities and foreign exchange rates, i.e. the MSCI Emerging Markets Equities and the MSCI Emerging Markets FX, registered losses while the spike of the respective gauge for bonds, the JPM EMBI, captured the pressure under which the said asset class came under. Drivers of the cross-assets slump were lingering worries over China's economy, the recent aggressive UST sell off that favored the USD on the back of a sharp increase in yields to fresh multi-year highs and the prevailing higher-for-longer narrative for major central banks' interest rates. Key institutional reports recently released by the World Bank that underlined the gloomier growth prospects for 2023 and 2024 in East Asia and Pacific and the OECD that tabulated the perils in the wider EM universe by tighter-than-expected global financial conditions or/and resurgence of food prices and supply shortages, did not help in reverting the prevailing sentiment. On the contrary, they weighed further pushing EM markets to the fourth consecutive quarter of broader stress.

CESEE: heading into the final quarter of the year, the annual rate of economic growth for Central and Eastern European economies showed signs of slowing in the first half of 2023 compared to 2022, while data through July, on both the output and demand, revealed that this trend continues in the third quarter. Hungary's economy extended the technical recession it entered in the third quarter of 2022. The annual growth rate in Poland followed a similar course while the economy of the Czech Republic appears more stable. The restrictive monetary policy adopted by the respective central banks of the above countries in the last at least 20 months has an obvious economic cost in the GDP of all three main emerging European countries, however, it is clearly paying off in the battle against high inflation. In particular, the course of annual inflation remained steadily downward for the most part from the beginning of the year until August. Nevertheless, August monthly values showed a new wave of inflationary pressures coinciding with the recent increase in energy prices. In view of the above, the local central banks' monetary policy stance in the near future is in the process of readjustment with one of the three CEE3 central banks, that of Poland, having already reduced the key rate in both September's and October's monetary policy meetings.

Markets View

Foreign Exchange

EUR/USD: in Q3 the US dollar demonstrated notable strength against its major currency peers, fuelled by evolving expectations of the Fed's long-term policy. The resultant increase in 10-year Treasury yields propelled the dollar higher. During this period, gold prices declined, whereas crude oil prices surged. Specifically, the EUR/USD pair faced considerable pressure, with a target set at 1.0500. The pair touched 1.0450, and the next mid-term support level is identified at 1.0300. Our analysis indicates that as long as the pair remains below the 250-day Exponential Moving Average (EMA) of 1.0721, the downside potential for the pair remains prominent. We anticipate that this level will act as a significant resistance point. However, we acknowledge the possibility of a short-term reversal, allowing for a temporary upward movement towards the 250-day EMA at 1.0721. It is important to monitor any such reversal closely, considering it within the broader context of the pair's movement before a potential resumption of downward pressure.

GBP/USD: the British pound found a temporary foothold supported by a surprisingly strong GDP growth print for Q2. Nevertheless, the sustained resilience of the US economy has allowed the Fed to maintain a hawkish stance, in contrast to the sluggish growth challenges faced by the UK and the Eurozone due to elevated interest rates. Despite the potential for another rate hike in the UK, the prevailing interest rate differentials continue to favour the US dollar. Additionally, the avoidance of a US government shutdown mitigates risks and contributes to the stability of the USD. The upcoming focus shifts toward global data, particularly the US jobs figures. The recent dip of GBP/USD below the 250-day moving average at 1.2320 reinforces the short-term bearish trend, with an eye on the 1.18 territory. We anticipate the likelihood of a short-term retracement, allowing for a temporary upward movement up to the 1.23 level, before the prevailing downward trend resumes.

Rates

EU: swap interest rates sold off in September due to persistent inflation concerns. The 10-year swap rate is trading at 345bps, having reached a high of 350bps. The yield curve slope has increased for a third consecutive month with the 5s30s spread trading at -30bps, a notable uptick from -75bps recorded at the beginning of July. Looking ahead, it is anticipated that the rates volatility will go lower as it is within the consensus view that the ECB has ended its hiking cycle given the balance between the inflation outlook and growth expectations. Upcoming inflation data is considered key as reflationary concerns can not be ruled out yet.

US: swap rates ended the month higher following substantial volatility. The 10yr SOFR swap rate is trading at 435bps. The yield curve continued to steepen with 5s30s spread now at -38bps, up from -50bps at the beginning of September. Going forward, we anticipate that rates will remain elevated for an extended

period, as the US economy is in a stronger position than initially anticipated. Furthermore, the curve is expected to continue steepening, driven by the structural impact of rising oil prices on inflation.

Emerging Markets Sovereign credit

Emerging markets have been shaken by another substantial and persistent repricing in US rates. Spreads suffered some widening while higher oil prices have provided some support, but not in all segments. The EMBI Global Index is currently standing at 361bps, having marked a 12bps widening move since the end of August. In CEEMEA, fixed income bonds performed poorly on the month. The central banks are still expected to embark into further easing of policy rates with the central bank of Poland unexpectedly cutting its base rate by 75bps early in September and following suit in October. In Latam, Mexican Banxico maintained both the key rate at 11.25% and also its hawkish rhetoric in line with consensus. In Asia, Indian government bonds finally got included in JPM GBI-EM index, effective from June 2024, while in China data has started to show signs of stabilization. We remain cautious in adding EM risk as core rates might have more room to rise before they peak.

Special Topic: Implications of BoJ’s policy adjustment and potentially related future developments

Introduction

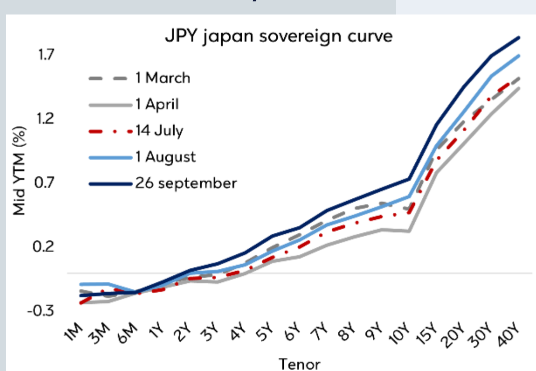
Over the past nearly two years, most advanced economies have tightened significantly their monetary policies in response to mounting inflationary pressures. Indicatively, since December 2021, the Fed, the ECB and the BoE have raised policy rates in total by 525bps, 450bps, and 515bps, respectively. The BoJ has been an exception, maintaining an accommodative policy stance by continuing its negative interest rate policy (NIRP), keeping the policy rate being steady at -0.1% and having 10yr government bond (JGB) yields under control through the yield curve control (YCC) policy. However, a notable shift occurred during the monetary policy meeting on July 27-28 when the BoJ adjusted the YCC policy, marking the first major change since December 2022 when it allowed 10yr JGB yields to fluctuate within a band of ±0.5% from ±0.25% previously. This time, the bank did not officially change the boundaries of the fluctuation band but increased the rate for daily fixed-rate purchase operations of 10yr JGBs from 0.5% to 1.0%. The BoJ mentioned that the upper and lower yield bounds would now be regarded as “references” rather than “rigid limits”, introducing a degree of flexibility in the operation of the YCC. Furthermore, the BoJ stated that “inflation expectations have shown some upward movements again” and that “if upward movements in prices continue, the effects of monetary easing will strengthen through a decline in real interest rates, while on the other hand, strictly capping long-term interest rates could affect the functioning of bond markets and the volatility in other financial markets”. These concerns about inflation were mirrored in the CPI inflation forecasts for the fiscal year 2023 included in the outlook report released in July, which were substantially revised upwards. The median forecast for CPI excl. fresh food stood at 2.5% and for CPI excl fresh food and energy at 3.2%, both 0.7ppts up from the previous projections in April. The rationale behind this revision was the larger-than-expected passthrough of higher import prices to consumer prices. Meanwhile, in the last monetary policy meeting on September 21-22, the BoJ maintained its policy stance, reiterating concerns about “developments in financial and foreign exchange markets and their impact on Japan’s economic activity and prices”. In light of the above recent adjustments in the BoJ's monetary policy, this special topic aims to provide insights into the evolving trends in bond markets and the JPY’s exchange markets after the policy adjustment in July. Subsequently, we discuss the key factors that will possibly shape the BoJ's future policy strategies.

Implications of the recent policy tweak on bond markets and exchange rates

(i) Domestic bond markets

Clearly, a direct implication of the BoJ's decision was the increase in JGB yields, with the 10yr yield exceeding 0.5% and peaking at 0.81% in early-October, the highest level since 2013. Despite the latest increase, 10yr yields have remained below 1.0%, indicating the BoJ's intension for a smooth adjustment instead of a strict expansion of the fluctuation band as was done at the monetary policy meeting in December 2022. Focusing on recent developments in Japanese sovereign bond markets -one of the motivations behind the policy adjustment- recent indicators show signs of improvement. Since the policy meeting in July, the JGB yield curve has exhibited a smoother trajectory. Notably, the kinks in the yield curve around the 10-year borrowing period have shown signs of smoothing over the past few weeks, indicating that the July policy tweak has somewhat addressed these distortions. For instance, the spread between 10yr/9yr JGB yields was negative on March 1 (-4.7bps) and April 1 (-1.1bps), while on August 1 and September 26 it turned positive at +8.1bps and +7.9bps respectively, but also higher than the +3.1bps spread observed on July 14. The improvement in bond market functioning is corroborated by the latest quarterly Bond Market Survey conducted by the BoJ. The diffusion index for the current situation of bond market functioning rose to -40 in August from -46 in the prior survey conducted in May. This shift suggests a continued recovery following a record-low reading of -64 recorded in February.

Figure 3: JGB market functioning has improved since July policy tweak



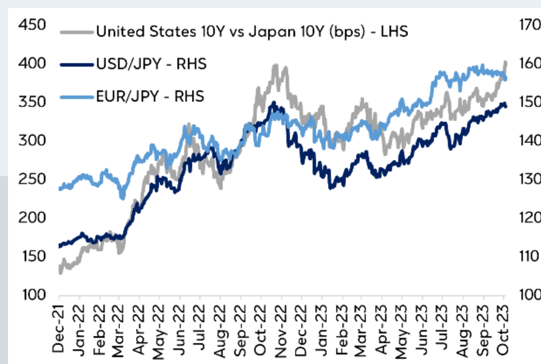
Source: Bloomberg, Eurobank Research

(ii) Global bond markets and exchange rates

Since the start of monetary policy tightening in advanced economies outside of Japan, bond yields globally witnessed a substantial increase. At the same time, the JPY has depreciated against major currencies, adding several challenges in the domestic economy, such as the rise in import prices, a concern frequently highlighted from BoJ officials. However, the impact of the BoJ's decision at the July policy meeting on global yields and JPY exchange rates was relatively limited. While the increase in JGB yields is significant within the context of Japan, it is small compared to other advanced economies where the much more aggressive monetary policy has led to a steeper rise in government bond yields. As of early-October, bond yields continued their ascent mainly on the prevailing market view that interest rates will likely remain high for longer than earlier anticipated. At the September's Fed monetary policy meeting, the median dots for 2024 and 2025 each shifted up by 50bps, suggesting fewer rate cuts than previously projected. As a result, 10yr UST yields rose further, marking a post-2007 peak in early-October at 4.88%. Consequently, the 10yr

UST/JGB spread exhibits a persistent upward trajectory, surpassing levels observed prior to the BoJ's policy adjustment in July. Meanwhile, the prospect of higher returns from investing in JGBs could have raised attractiveness of domestic over foreign bonds, potentially triggering a sell-off of foreign assets and a firmer Japanese currency. However, this scenario has not still materialized as Japanese investors continue overall to be net buyers of foreign long-term debt securities following the YCC policy tweak, with the cumulative net purchases standing at 5.00trn yen from the week ended August 5 until the week ended September 23. Notably, the weekly net purchases for the week ended September 9 were the largest since March 2020 (3.63trn yen). Against this backdrop, the JPY's depreciation continued as of early-October, with the USD/JPY and the EUR/JPY standing above their pre-July meeting levels, indicating that global bond yields exert a more pronounced influence on the JPY compared to movements in JGBs. Overall, the impact of the BoJ's July policy decision was reflected on Japanese government bond markets, as JGB yields rose and bond market functioning improved. However, the implications on global bond markets and JPY's exchange markets were rather limited, as the effect of monetary policy tightening by the other major banks was stronger. Looking ahead, the expected interest rate cuts by major central banks likely starting in H2 2024, coupled with the likely prospect of rate hikes by the BoJ, may alter the view and possibly stimulate a sell-off of foreign bonds that would support the JPY. However, expectations of higher-for-longer rates limit the possibilities of substantial changes towards this direction in the short run.

Figure 4: Limited impact of BoJ's decision on global yields and exchange rates

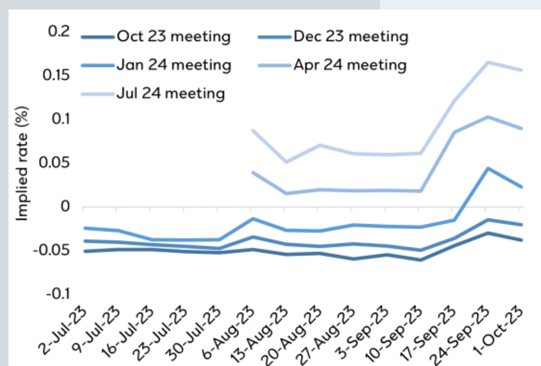


Source: Bloomberg, Refinitiv, Eurobank Research

Potential future developments

Despite the BoJ's decision to maintain its current policy settings at the latest monetary policy meeting held on September 21-22, the adjustments made in July have triggered discussions regarding its future course of action and the potential timing of another monetary policy shift. Investors point to further policy adjustments in the not distant future, as evident in higher implied rates at the upcoming BoJ meetings, reflecting higher expectations for interest rates. Furthermore, according to the results of a Bloomberg survey released on September 13, most respondents share the view that the next alteration in the BoJ's main policy settings will be implemented in

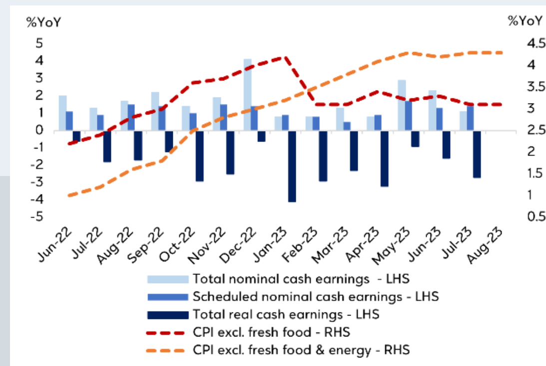
Figure 5: Investors point to further adjustments in the not distant future



Source: Refinitiv, Eurobank Research

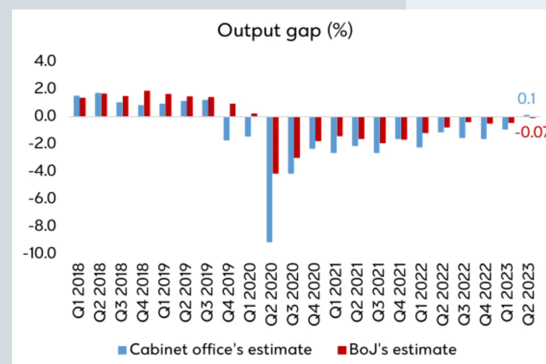
April 2024. Recent comments from Governor Ueda have leaned towards a neutral-to-dovish stance. During the press conference following the last meeting, the Governor reiterated the view that the BoJ is cautious about the downside risks to inflation due to the country's long period of deflation and low inflation, adding that since the release of the July outlook report, inflation did not overshoot substantially. However, he also mentioned that prices decelerate less than previously expected. Furthermore, he expressed concerns regarding the decline in real wages, while at a recent meeting with business leaders in Osaka, Ueda highlighted the "extremely high uncertainties" on whether companies could continue raising prices and wages. The key determinants shaping the future of the YCC policy, and the NIRP are inflation expectations, wage growth and the output gap. According to the BoJ, "the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases". Additionally, the BoJ has often mentioned that improving the output gap is crucial for achieving price stability above the target level. So far, the data suggest persistent consumer price pressures, in line with BoJ concerns about a slower-than-expected deceleration in inflation. The CPI excl. fresh food and CPI excl. fresh food and energy (the indices closely watched by the BoJ) stood at 3.1%YoY and 4.3%YoY respectively in August, both unchanged from the previous month. Meanwhile, the quarterly BoJ Tankan survey conducted in September indicated that corporates' inflation expectations 5 years ahead are high at 2.1%, unchanged compared to the previous survey conducted in June. As a result of the persisting inflation, real wages (total cash earnings) contracted on average by 2.5%YoY in the period Jan-Jul 2023, despite a 1.4%YoY average increase in nominal terms for the same period. The momentum in nominal wage growth in the period May-Jul 2023 is stronger compared to Jan-Apr 2023. This is particularly evident when considering scheduled cash earnings, namely total earnings after excluding overtime payments. The substantial growth in nominal wages over the last months possibly reflects the results of the "shunto" spring wage negotiations, indicating that nominal wages will likely continue rising, mitigating the fall in real terms.

Figure 6: Real wages have fallen due to inflation, but an expected increase in nominal wages will likely mitigate the decline



Source: MHLW Japan, Statistics Bureau Japan, Eurobank Research

Figure 7: Output gap improved during the first two quarters of 2023



Source: Cabinet Office Japan, Bank of Japan, Eurobank Research

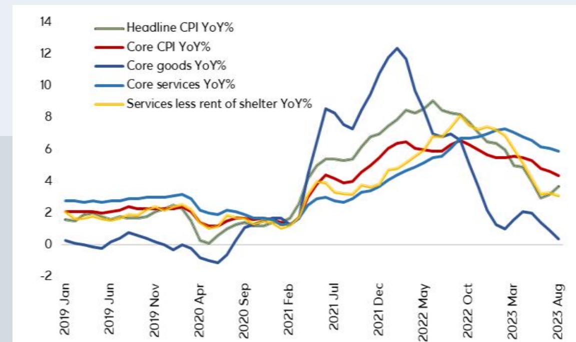
Such increases in nominal wages would likely limit the expected disinflation. Regarding the trend in output gap, there was an improvement during the first two quarters of 2023. According to the estimate by the Cabinet office, it stood at 0.1% in Q2 2023, marking the first positive level since Q3 2019, indicating that the economy operates above capacity. The BoJ's estimate for the output gap stood at -0.07% in Q2 2023, also showing signs of improvement, as it narrowed from -0.41% in Q1 2023 and -0.48% in Q4 2022. This improvement reflects the surprisingly strong growth momentum of the country in 2023 (1.8%YoY in H1 2023 from 1.2%YoY in H1 2022). All in all, the markets expect some further policy adjustments in the not distant future. Trends in relevant key indicators, such as expectations about inflation and the favorable developments in the output gap, provide encouraging signs towards this direction. However, the outlook for wages remains somewhat uncertain. Real wage growth dynamics will likely depend on the pace at which nominal wages grow compared to consumer prices.

US

Growth continues to exhibit surprising resilience to tighter monetary conditions

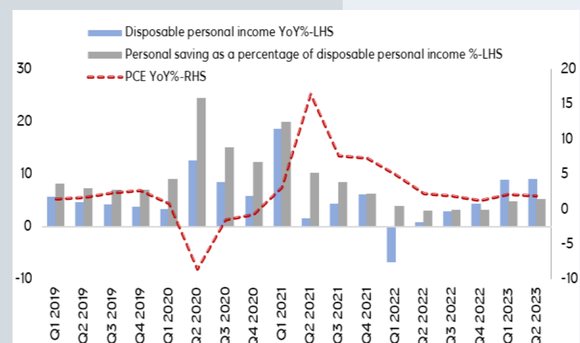
Disinflation is progressing, though slowly. Headline CPI rose in August for the second consecutive month, to 3.7%YoY from 3.2%YoY in July, solely driven by higher energy prices, while core inflation continued to fall, to 4.3%YoY from July's 4.7%YoY on lower core services and goods inflation, The labor market is also softening gradually, albeit from still tight levels. Non-farm payrolls rose by 187k in August, marking the third consecutive month of an increase under 200k, with the average monthly rise dropping to 150k over the last three months, down from 238k in the three months ending in May. In additional signs of moderation, the unemployment rate rose by 0.3ppts to 3.8% in August, while the ratio of vacancies to unemployed — one of the Fed's favorite gauges of labor market tightness — eased slightly to 1.51, the lowest level since September 2021, from July's upward revised 1.53, moving further below the March 2022 peak of 2.01%, but still remains above its pre-pandemic average of 1.2. Moderating price pressures and signs of easing in labor market conditions allowed the Fed to skip a rate hike at the September policy meeting for the second time this year. However, the pause was accompanied by a hawkish bias, as reflected in both the official statement and the updated dot plot, which continues to signal another 25bps rate hike in one of the two remaining meetings this year along with a slightly later start to rate cuts in 2024, reinforcing expectations of "a higher-for-longer" policy rate path. Undoubtedly, economic activity continues to exhibit surprising resilience to tighter monetary conditions, presumably thanks — according to Fed Chair Jerome Powell — to stronger than expected household and business balance sheets and a higher percentage of fixed rate mortgages, while the neutral rate of interest may be higher than currently projected. GDP grew by a slightly above trend growth rate in H1 2023, while looking into Q3, incoming activity data imply another quarter of solid growth. However, a mild US slowdown is still likely in the coming quarters, starting in Q4, amid an expected decline in personal consumption. The impact of the Fed's aggressive monetary tightening has not been fully felt yet on economic activity, the labor market is cooling, albeit modestly, while the start of student loan repayments in October will probably also act as a drag on GDP growth. All in all, we stick to our view for a growth rate of 2.0% in 2023, almost unchanged from 1.9% in 2022.

Figure 8: Disinflation is progressing, though slowly



Source: BSL, Eurobank Research

Figure 9 : Consumer spending has been a key source of the US economy's resilience



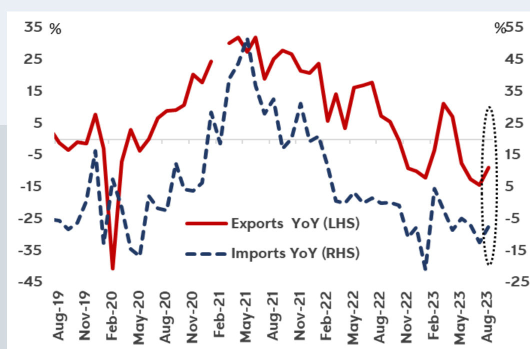
Source: BLS, Eurobank Research

China

Signs of economic stabilisation but challenges linger

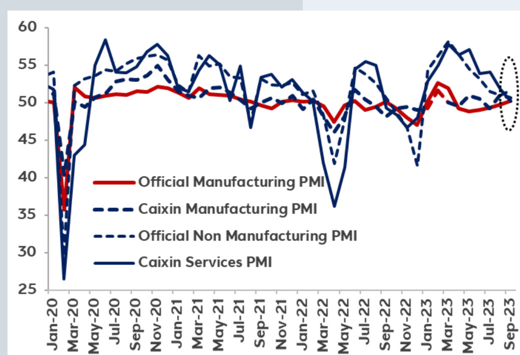
Data released since our latest issue point to some stabilisation of the economy. Industrial production gained steam in August expanding by 4.5%YoY from 3.7%YoY in July, above market expectations over a 3.9%YoY expansion. On the same footing went retail sales whose increase almost doubled in August coming in at 4.6%YoY from 2.5%YoY in July, when market expectations were for a milder pick up of 3.0%YoY. The backstop of the economic slowdown got broader based as it also extended to foreign trade with the contraction of imports and exports narrowing in August after shrinking continuously for the past six months (exports -8.8%YoY vs -14.5%YoY and imports -7.3%YoY vs -12.45%YoY in August and July respectively). The aforementioned data scenery along with the rebound of industrial profits which increased by a double-digit positive rate (+17.2%YoY) after five months of constant decrease, were mirrored in September's official PMI data with the manufacturing index returning above the boom or bust level of 50 after laying on contracting grounds since April. While the non-manufacturing gauge also improved, both the Caixin indices, manufacturing and services, did not capture the same advance, but they did stay above the 50 benchmark. It is far from clear whether the slowdown has bottomed out as dismal developments in the real estate sector continue to weigh both on the economy and the sentiment. Recent default jitters of one more big property developer, Country Garden, following the Evergrande's distressed saga at play for at least the past two years are only indicative of where the real estate sector stands. Given the prolonged distress and the absence of public bailouts, as would have been the case most probably in the recent past, the hypothesis that policy makers pull out extensive stimulus and public intervention so as to allow market dynamics unwind is gaining ground. The reasoning of the said assumption is that the economy needs to pass from lower quality investments to those of higher quality and maybe the surging corporate defaults is the price needed to be paid for the said transition. Notwithstanding, policy aid has not been entirely withdrawn with recently decided rate cuts in existing and new mortgages appearing to have started to kick in mildly as decline of home sales moderated to -29.2%YoY in September compared to -33.9%YoY in August.

Figure 10: Broad based economic stabilisation reflected, also, in foreign trade...



Source: Bloomberg, Eurobank Research

Figure 11: ..improves, partially, markets' perception over the course of the economy



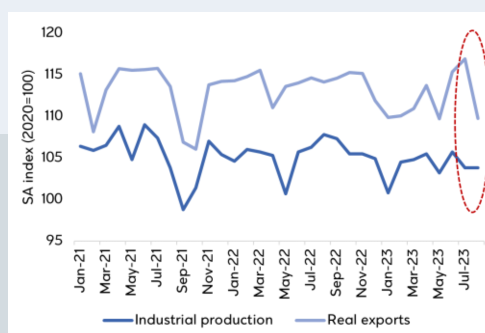
Source: Bloomberg, Eurobank Research

Japan

Growth will likely remain resilient for the rest of 2023 but downside risks persist

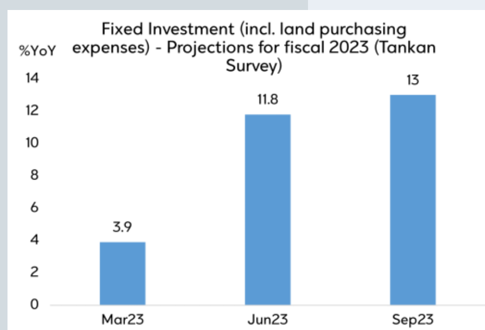
Real GDP growth was revised downwards in Q2 2023 to 1.2%QoQ/1.6%YoY from 1.5%QoQ/2.0%YoY, mainly due to private non-residential investment which was revised downwards to -1.0%QoQ from 0.0%QoQ, and so were other major components such as private consumption (-0.6%QoQ from -0.5%QoQ) and exports (3.1%QoQ from 3.2%QoQ). Overall, the revised data highlighted once again that net exports was they key driver for Q2 2023 GDP growth (+1.8ppts contribution, against -0.6ppts contribution by domestic demand) and reaffirmed the solid growth momentum in H1 2023 (1.8%YoY from 1.2%YoY in H1 2022). Incoming data for Q3 present a mixed picture. Industrial production was flat in August after a 1.8%MoM contraction in July. The weak performance in the first two months of Q3 was in line with the manufacturing PMI (48.5 in September from 49.6 in both August and July) and was reflected in the significant decline in real exports of goods (-6.1%MoM from +1.4%MoM) which was broad-based across regions, indicating that the impact of the weak growth momentum in most economies overseas has likely started to materialize. On the other hand, consumer spending remained robust in August, with retail sales growing further, albeit marginally, by 0.1%MoM from 2.2%MoM in July, mirroring improvements in wage growth (July's nominal wages excl. overtime pay +1.4%YoY from +1.3%YoY in June), in the aftermath of the spring wage negotiations ("shunto"). However, consumer sentiment deteriorated in September for a second consecutive month (35.2 from 36.2 in August and 37.1 in July), possibly due to concerns regarding the recent spike in oil prices. Private investment likely weakened in July, as suggested by core private machinery orders which fell by 1.1%MoM following a 2.7%MoM rise in the prior month, suggesting that companies may have adopted a cautious "wait-and-see" approach to capital expenditure due to the gloomy economic outlook globally. Nevertheless, private investment is expected to recover for the remainder of 2023. According to the latest quarterly BoJ Tankan survey conducted in September, projections for fixed investment growth in fiscal year 2023 were revised upwards to 13.0%YoY from 11.8%YoY in the previous survey, likely reflecting companies' appetite for investment to increase productivity in order to address labor shortages. Against this backdrop, we maintain our forecast for annual 2023 GDP growth to 1.8%, with uncertainties in the global economic landscape, including the effects of monetary policy tightening overseas and the prospects of the Chinese economy, to be the key downside risks.

Figure 12: Weak production performance during the first two months of Q3, likely affected exports



Source: METI Japan, Bank of Japan, Eurobank Research

Figure 13: Despite signs of weakness in July, private investment is expected to recover



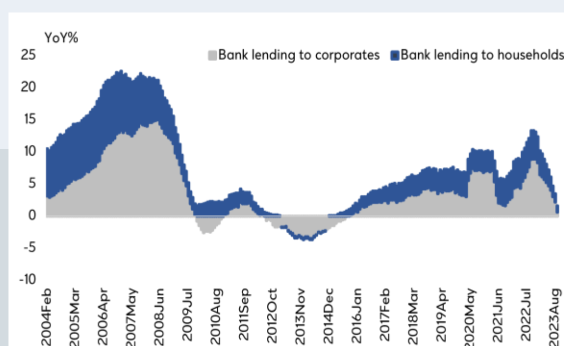
Source: Bank of Japan, Eurobank Research

Euro area

Data consistent with sustained stagnation over the coming quarters

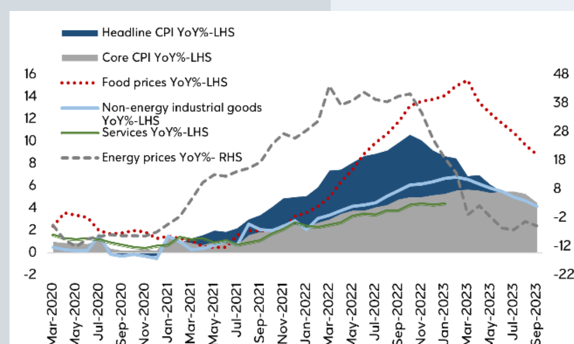
Q2 GDP was revised lower by 0.2ppts to 0.1%QoQ, while Q1 was revised up slightly from flat to 0.1%QoQ. This meant that the Eurozone ended up avoiding the technical recession around the turn of the year that was implied by the initial estimates. Nevertheless, the overall picture of the economy is one of sluggish growth momentum, while available data point to sustained stagnation over the coming quarters, as tightening ECB monetary policy is transmitting forcefully to the real economy, external demand remains subdued and persistently high inflation erodes households' purchasing power. Industrial production fell by a bigger than expected 1.1%MoM in July after a 1.0%QoQ contraction in Q2, consistent with a carry-over effect of -0.8%QoQ and the EC's economic sentiment indicator deteriorated in September for a fifth straight month, though less than expected (-0.3pts to 93.3), with consumer confidence falling again (-1.8pts to -17.8) as rising fuel prices put renewed pressure on household real purchasing power. Meanwhile, ECB monetary tightening continues to feed through the credit channel. Bank lending to households eased further in August (to 1.0%YoY from July's 1.3%YoY), while credit to non-financials slowed even more (to 0.6%YoY from 2.2%YoY), contributing to a further decline in M3 money supply growth to a new post-2010 low (-1.3%YoY). The composite PMI went up in September (+0.4pts to 47.2) thanks to a mild rebound of services, but still remained firmly in contraction territory. In an encouraging note, though, the September increase, the first since April, supports optimism that the weakness in economic activity should not intensify, reducing the likelihood of a recession. This holds especially if consumer spending improves through H2 2023, supported by strong wage growth, ongoing employment growth and lower inflation. Despite lackluster growth, the ECB hiked rates by a further 25bps at the September policy meeting to reinforce disinflationary progress. Headline CPI unexpectedly eased to 4.3%YoY in September from 5.2%YoY in August and core fell sharply from 5.3% to 4.5%YoY, though still remained above the ECB's target. However, the central bank signaled a pause in the hiking cycle, and, at the same time, remained data dependent, with President Lagarde underlining that the policy focus going forward will shift towards the duration of restrictive rates rather than the level of terminal rates.

Figure 14: The transmission of ECB policy to the real economy is firmly taking hold



Source: ECB, Eurobank Research

Figure 15: Disinflation is progressing, though slowly



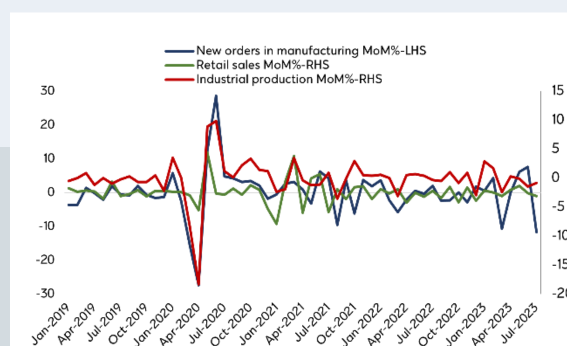
Source: Eurostat, Eurobank Research

Germany

Risks of protracted weakness

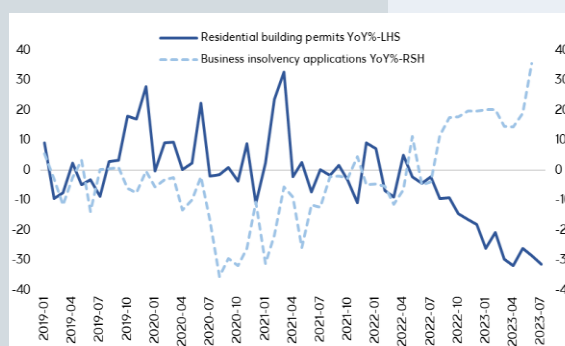
The economy exited the technical recession it entered in Q4 2022, as GDP stagnated in Q2 2023, with inventories providing the only substantial support to economic activity. But even if the technical recession ended, prominent leading indicators point to risks of protracted weakness. The Ifo business climate worsened in September for the fifth consecutive month, though less than expected, down by 0.1pts to 85.7, the lowest level since October 2022. Business expectations improved, halting a five-month declining streak, but still remained at extremely pessimistic levels. More worryingly, current conditions deteriorated further amid concerns about weak external demand, higher interest rates and elevated inflation, boding poorly for GDP growth in Q3. Sending another clear signal that a rapid recovery is not yet in sight, the composite PMI remained below the 50 level in September, despite a higher-than-expected improvement (+1.8pts to 46.4), pointing to an ongoing contraction in private sector activity. The ZEW current conditions index moved lower in September for the fifth consecutive month to a more than three-year low (-79.4pts), and though business expectations rose for the second straight month, the improvement was modest (+0.9pts), with the two monthly increases (September & August) only offsetting roughly half of the July drop. Meanwhile, in terms of hard data, retail sales declined in July for the second consecutive month, -1.0%MoM, as persistently high inflation continued to erode households' purchasing power. Also reflecting the risk of slipping back into recession, industrial output dropped by 0.8%MoM in July, the third consecutive decline. More worryingly, the trend of new industrial orders points clearly to the downside, plunging by 11.7%MoM in July, the strongest decline since April 2020, mostly due to a sharp fall in non-domestic orders. Meanwhile, ECB policy tightening continues to feed through to the real economy. Residential building permits, which have been in a steady downtrend since May 2022, fell by a further 31.5%YoY in July, while business insolvency applications rose by another 35.8%YoY in June. Against this backdrop, we continue to expect the economy to contract by 0.3% this year, with risks skewed to the downside amid concerns that external headwinds will likely intensify later this year, assuming that the US economy will slow down by the end of the year.

Figure 16: Hard data point to a weak start for Q3 GDP



Source: German Statistics, Eurobank Research

Figure 17: ECB policy tightening continues to feed through to the real economy



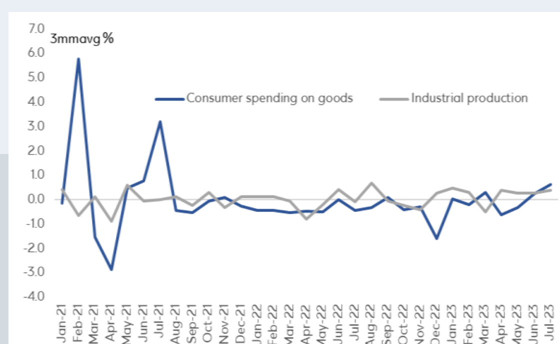
Source: German Statistics, Eurobank Research

France

GDP growth expected to return to a sluggish trend in H2 2023

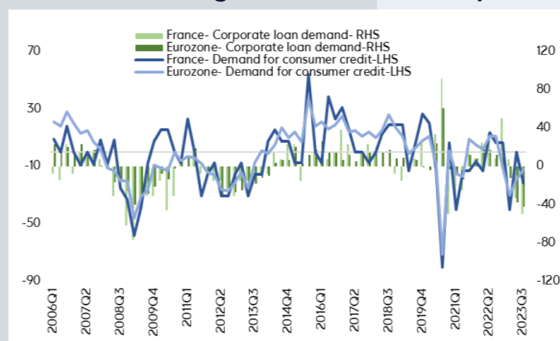
GDP surprised to the upside in Q2, rising by a sharply higher than expected 0.5%QoQ after three quarters of sluggish growth to the tune of 0.1-0.2%QoQ. Growth was solely supported by net trade, given a sharp bounce-back in export that was mostly driven by one-offs, while domestic demand remained sluggish, hampered by high inflation and rising rates. Looking ahead, sentiment surveys have sent contrasting signals for Q3, indicating, overall, a return of GDP growth to a sluggish trend. The composite PMI dropped further in September to 44.1 from August's 46.0, pointing to the fourth consecutive month of private sector contraction. In a more encouraging note, though, the INSEE business climate indicator unexpectedly edged up to 100.3 in September, a tad above its long-term average, from August's 99.9. Meanwhile, real activity data started Q3 on a positive note. Consumer spending on goods increased in July for the third straight month, up by 0.3%MoM, driven by a rise in purchases of engineered goods due to a strong rebound in consumption of durable goods. Along these lines, industrial production — in contrast to the manufacturing PMI which remained on a downward trend —rebounded by a higher than expected 0.8%MoM in July after a 1.0%MoM decline in June, taking the July level 2.1% above the Q2 average. In spite of the July increase, the outlook of the industrial sector remains gloomy against a backdrop of subdued global demand, while net trade is unlikely to remain a lasting source of support for economic activity as low external demand should also weigh on exports. In addition, monetary policy tightening continues to feed through to the real economy. Interest rates on bank loans have markedly increased, and credit conditions have tightened. That was led to a drop in credit demand that has been more pronounced than the eurozone average. (Graph 19). However, with wage growth remaining firm, consumer spending is anticipated to start recovering amid expectations of a rise in real disposable income as inflation should continue to decelerate by the end of the year, though less quickly than earlier expected following the recent rise in fuel prices. All in all, as suggested by the Banque de France (BoF), real GDP is expected to expand by 0.1-0.2%QoQ over the next two quarters of the year, with the annual rate for 2023 coming in at 0.8%.

Figure 18: Hard data started Q3 on a positive note



Source: INSEE, Eurostat, Eurobank Research

Figure 19: Monetary policy tightening continues to feed through to the real economy



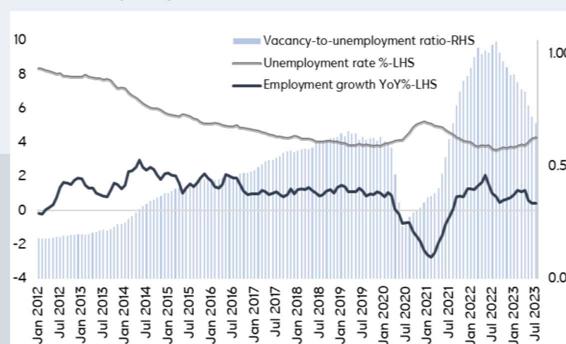
Source: ECB, Eurobank Research

UK

Clear signs of sliding near-term growth momentum, disinflation in progress

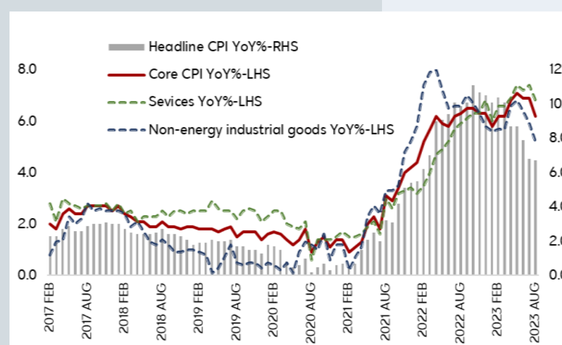
After 515bps in cumulative tightening since December 2021, the BoE voted narrowly (5-4) at the September monetary policy meeting to keep the Bank Rate unchanged at 5.25%, rather than raise it further. Apparently, the majority of the MPC members are increasingly confident that past monetary tightening is being transmitted more forcefully to the real economy. Indeed, after growing by a surprisingly strong 0.2%QoQ in Q2, GDP contracted by a much higher than expected 0.5%MoM in July, reversing the 0.5%MoM rise reported in the prior month. The fall was broad-based across sectors for the first time since June 2022, leaving output on track to broadly stagnate in Q3. Sending clear signs of sliding near-term growth momentum, the composite PMI remained below the threshold of 50 in September for the second straight month, coming in at 48.5, not much changed from August's 48.6. Meanwhile, credit conditions remain tight, while housing market slump is deepening, as suggested by the RICS house price balance which plunged in August to the lowest level since 2009, amid sharply higher mortgage rates and elevated economic uncertainty. At the same time, labor market conditions are loosening, slightly faster than expected. The unemployment rate increased to 4.3% in May-July from 4.2% in April-June. The vacancy-to-unemployment ratio continued to decline in July, coming in at a near two-year low of 0.72 from June's 0.77, while private sector regular wage growth - a measure the BoE Governor has consistently referenced — slowed just a touch, to 8.1% 3m/yr from June's multi-year high of 8.2% 3m/yr, encouraging the BoE to retain an implicit tightening bias. Against this backdrop, the risk of a recession remains non-negligible. But though the odds of a downturn remain high, an expected improvement in real disposable income as disinflation clearly progresses (CPI at 6.8%YoY in July after a peak of 11.1%YoY in October 2022), will probably keep the economy growing, albeit modestly over coming quarters, allowing us to keep unchanged our projection for near flatline growth for the whole of 2023. In any case, economic uncertainty will probably remain elevated heading into year-end, while inflation is seen slowing further over coming months supporting the view that the BoE's tightening cycle is probably over.

Figure 20: Labor market conditions are loosening slightly faster than expected



Source: ONS, Eurobank Research

Figure 21: Disinflation is clearly progressing



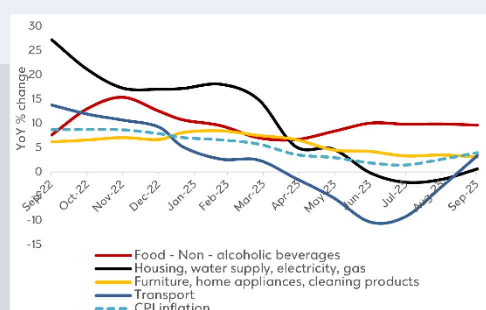
Source: ONS, Eurobank Research

Cyprus

Household demand remains robust, signs of weakening in the external balance

Based on the latest data available, growth in retail trade, a significant component of household consumption which was the main driver of the GDP increase in Q2 2023, remains robust during most of Q3 2023. The volume of retail trade expanded by 9.4%YoY in July and 6.4%YoY in August, exceeding in both months the average print in Q2 (5.7%YoY). This development is linked to inflation deceleration, partial wage indexation from June onwards, at a higher rate than in the previous six years (66.7% instead of 50% of previous year's inflation), and the strong decline of unemployment in Q2, to a 12.5-year low of 5.9% against 6.8% in Q1. Boost from the latter factors is expected to continue at least in the remainder of 2023, as the unemployment fall is not linked only to seasonal effects (e.g., employment in tourism), but also reflects ongoing structural changes, such as the bloom of the ICT sector, by means of the state digital visa programme, as well as the relaxation of restrictions on employment of third-country nationals, as evident in the increase of employment in the health sector and in education. On the contrary, inflationary pressures will resurge, at least in the near term, moderating the rise in private consumption, on the back of rising oil prices and stronger demand from wage indexation. The CPI inflation already accelerated in August (+2.6%YoY) and September (+4.0%YoY) after a 12-month period at a falling trend. Buoyant real estate demand — despite rising mortgage rates — that took the number of sales in the January-August period at a 14-year high (10.2 thousand), 20.5% higher than last year, will sustain and possibly strengthen the 5.9%YoY growth in the volume of housing investment in H1 2023. The main drag on investment will come from the continued credit contraction towards non-financial businesses since December 2022 (-2.4%YoY in August). Regarding developments in the external balance, the goods deficit expanded in July after shrinking for two months, by 13.2%YoY, due to a fall in exports by 9.7%YoY, exclusively towards the EU countries (-14.9%YoY). Tourism revenues kept increasing annually in July, at a slower pace relative to Q2 (+19.1% vs. +27.4%), in line with the deceleration in the tourist arrivals growth. In any case, the solid rise in tourism revenue in Q2 did not avert the decline in real exports of services, highlighting the significance of trends in other tradable services (e.g. financial services). In view of the recent mixed dynamics in GDP determinants, our growth forecast for 2023 remains unchanged to 2.2%.

Figure 22: The resurge in CPI inflation is mainly due to resuming inflationary pressures in transport and housing–utility



Source: CYSTAT, Eurobank Research

Figure 23: Despite the strong slowdown in mortgage loans, the number of real estate sales in the January-August period stood at a 14-year high

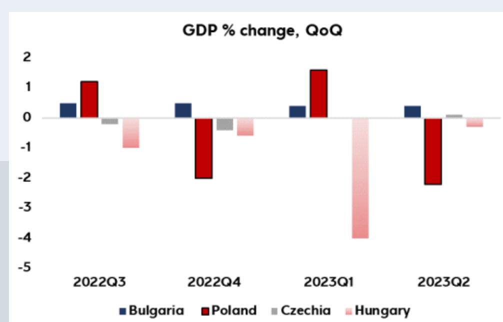
Source: Statwatch, Central Bank of Cyprus, Eurobank Research

Bulgaria

Falling inflation behind the solid, though lower, Q2 growth print

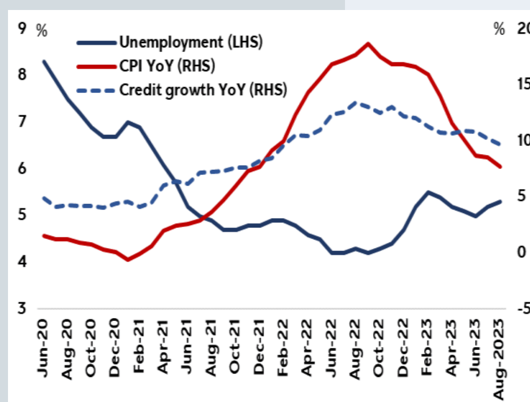
The final Q2-2023 GDP reading came in at +1.8%YoY (+0.4%QoQ) from +2.1%YoY (+0.4%QoQ) in Q1, confirming the earlier flash estimate. The breakdown of the expenditure components of the annual print revealed household consumption and net exports as the key drivers of growth while investments also picked up. Private consumption increased by 8.2%YoY from 1.5%YoY in Q1, which, even though, not supported by the course of real wages whose contraction in Q2 deepened compared to Q1 (-3.4%YoY in Q2 vs –0.4%YoY in Q1), it augmented, presumably on the back of real credit growth. Specifically, while nominal retail credit growth averaged higher in Q1 than in Q2, the quick disinflation process from January until June resulted in real retail credit contracting by 0.8%YoY in Q1 and expanding by ca 4.0% in Q2, pumping into the economy and especially towards households and retailers pro-consumption liquidity during Q2. The rapid and continuing fall of inflation from January (16.7%YoY) till June (8.7%YoY) gave a breather to disposable incomes as well while consistently low unemployment, despite the uptick to 4.4% in Q2 from 4.1% in Q1, also may have assisted. Tailwinds on growth came also from the external trade dynamics as the contraction of imports outpaced that of exports, with the latter component, presumably, hampered by the subdued external demand. The increase of investments (+10.8%YoY in Q2 vs +5.4%YoY in Q1) surprised favorably amid the increasing financing costs throughout Q2. Looking ahead of Q2, available data so far for Q3 point to some broad cooling as retail sales growth slowed down to 1.6%YoY from 2.4%YoY in June and industrial output contracted deeper in July by -11.5%YoY from -9.4%YoY in June, approaching April's low of -12.7%YoY. However, a backstop to the economic slide may have been provided by bank credit which held almost still in nominal terms and slightly improved in real ones with available data up to August. Also, the increase of bank profits by ca 68%YoY from January to August, due to increased interest rates within the same period, incentivizes banks to proceed further with credit expansion and thus, ceteris paribus, act pro-growth for the rest of the year.

Figure 24: GDP growth held firm in Q2, comparatively to other regional peers ...



Source: Eurostat, Eurobank Research

Figure 25: ...on the back of steadily low unemployment and deflation



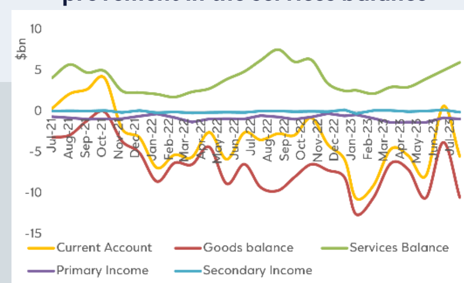
Source: National Bank of Bulgaria, National Statistical Institute of Bulgaria, Eurobank Research

Turkey

Monetary tightening escalating, but with meagre positive effects on credibility and implications for the investment outlook

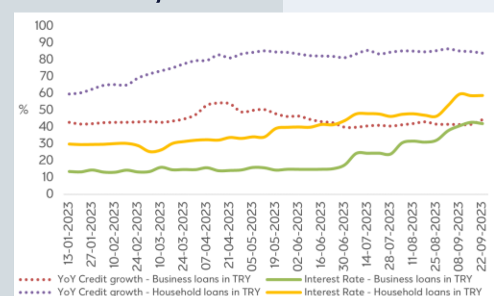
The strong rebound of inflation in July – August, reaching 58.9%YoY in the latter month from 38.2%YoY in June, was the main reason behind the recent, fourth consecutive rise of the policy rate by the Monetary Policy Committee (MPC), by another 500bps, to 30%. This upturn in consumer prices, which continued in September, albeit at a slower pace (61.5%YoY), stemmed mainly from the further increase of wages in July and the weaker lira (TRY), especially after the unexpected switch of the monetary policy to a hawkish stance in June. The MPC sees upside risks to inflation in the period ahead from the strong course of domestic demand, the persistent stickiness of services inflation and the ongoing increase in oil prices. Accordingly, the committee reaffirmed that, if needed, monetary policy will be further tightened, until a significant improvement in the inflation outlook is achieved. Furthermore, selective credit tightening will be continued. There are no indications yet that the new policy rate increase has improved markets' confidence, as the TRY devaluated afterwards further against the USD, by another 0.8%, to 0.0365, a new all-time low. Unless this trend is soon drastically reversed, the strong deterioration in the current account deficit in most months of 2023 up to July (average: +31.4%YoY), will continue for the remainder of the year, mainly from the mounting deficit of the goods balance, with imports rising faster than exports, as consumer demand remains resilient, backed by the July wage raises. The moderate improvement in the services surplus, as residents' tourism spending buoyed in the period from January to July can only mitigate the worsening in the goods balance. Robust household consumption growth in the first half of 2023 will be burdened by surging inflation, which, according to the MPC, will stand at year-end close to 62%YoY, instead of 58%YoY previously expected. The more aggressive monetary policy tightening will weigh on investment, as the average interest rate for business loans in TRY has more than doubled during June - late-September, from 15.0% to 42.2%, and credit expansion decelerated to 41.8% from 48.9%, while FDI fluctuated up to July, seeming to be on hold to assess developments in monetary policy. On the other hand, the escalation of reconstruction process in regions hit by earthquakes after the presidential elections and the continuation of other state support will boost investment and public consumption spending, respectively. Under these differing dynamics in GDP components, we stick to our 2023 growth forecast for 2023 at 3.7%.

Figure 26: Monetary tightening weighs on the goods balance, offsetting the moderate improvement in the services balance



Source: Central Bank of Turkey, Eurobank Research

Figure 27: Higher interest rates weakened credit growth towards businesses, but have not affected yet credit towards households



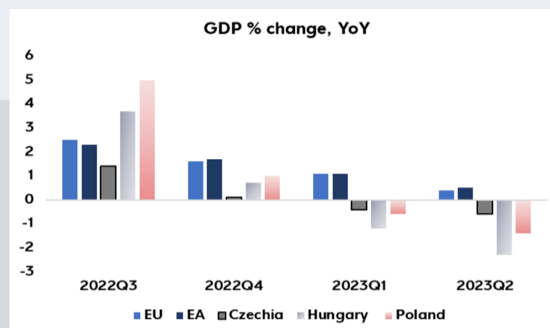
Source: Central Bank of Turkey, Eurobank Research

CESEE

Growth to slow in 2023, inflationary risks tilted sightly to the upside

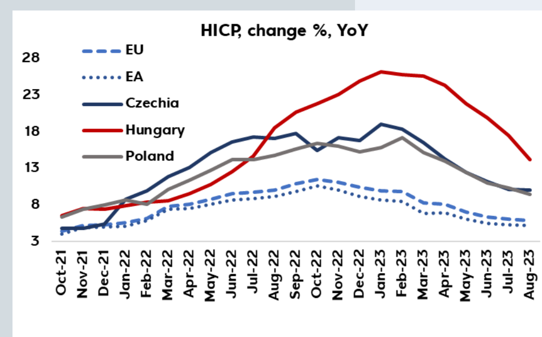
Having entered the final quarter of the year, regional economic growth cooled down in the first half of 2023 compared to FY 2022, while data up to July from both the supply and demand side of regional economies, suggest that the same trend continued in the third quarter as well. Specifically, the economy of Hungary extended the technical recession it had entered in Q3-2022, contracting by -0.3% in Q2-2023 compared to Q1-2023, while the annual growth rate also remained negative at -2.3% from -1.2% in the previous quarter. The annual growth rate in Poland followed a similar course, with the economy shrinking by -2.2% in Q2-2023 compared to Q1-2023. The economy of the Czech Republic appeared more stable, remaining almost stagnant in the last two quarters posting almost null growth rates. Evidently, the restrictive monetary policy adopted by the respective central banks of the CEE3 economies for at least the past 20 months had an obvious economic cost in the economic output of all three core developing European countries, but, at the same time, it is, clearly, paying off in the battle against high inflation. In particular, the path of annual inflation remained steadily downward from January until August. It is indicative that all three economies (CEE3) started 2023 with double-digit annual HICP readings which by August had almost halved, still, remaining at higher levels compared to the EU and the Eurozone (Hungary 26.2% in January and 14.2% in August, Poland +15.9% in January and 9.5% in August, Czech Republic +19.1% in January and 10.1% in August, with the respective readings for EU and EA from 10% and 8.7% to 5.9% and 5.2%). Nevertheless, monthly values for the same month point to a new wave of inflationary pressures that coincide with the recent appreciations in energy prices. Given the above, the stance of local central banks in the near future is currently being readjusted with one of the three, that of Poland, having already reduced the key policy rate in both September's and October's monetary policy meetings. The above uncertainty over the effects of inflation in the coming months on the already milder economic growth for 2023 compared to 2022, was also reflected in the ESI, which came in weaker in September compared to August.

Figure 28: Restrictive monetary policy tapped the brake on regional growth...



Source: Eurostat, Eurobank Research

Figure 29: ...but has proved efficient so far in curbing inflation



Source: Eurostat, 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)		
	2022	2023f	2024f	2022	2023f	2024f	2022	2023f	2024f	2022	2023f	2024f	2022	2023f	2024f
World	3.5	2.8	2.6	8.7	6.0	4.3									
Advanced Economies															
USA	1.9	2.0	0.9	8.0	4.1	2.7	3.6	3.7	4.3	-3.8	-3.2	-3.2	-5.4	-6.0	-5.9
Eurozone	3.3	0.5	0.8	8.4	5.6	2.7	6.7	6.5	6.7	-0.7	1.3	1.7	-3.6	-3.5	-2.9
Germany	1.8	-0.3	0.6	8.6	6.1	2.9	5.3	5.6	5.6	4.6	6.0	5.6	-2.6	-2.5	-1.8
France	2.5	0.8	0.8	5.9	5.7	2.7	7.3	7.2	7.3	-2.0	-0.8	-0.7	-4.7	-4.8	-4.5
Periphery															
Cyprus	5.6	2.2	2.9	8.1	3.7	2.3	6.8	6.2	5.8	-9.1	-11.0	-8.0	2.3	3.3	3.5
Italy	3.7	0.8	0.7	8.7	6.2	2.3	8.1	7.9	8.0	-1.5	0.7	1.0	-8.0	-5.0	-4.0
Portugal	6.8	2.3	1.6	8.1	5.3	2.6	6.0	6.7	6.5	-1.2	1.3	0.3	-0.4	-0.4	-0.3
Spain	5.8	2.2	1.5	8.3	3.5	2.8	12.9	12.6	12.3	0.6	1.5	1.5	-4.8	-4.1	-3.4
UK	4.3	0.4	0.4	9.1	7.5	3.1	3.7	4.2	4.6	-4.9	-2.7	-3.1	-4.3	-5.2	-3.7
Japan	1.0	1.8	1.1	2.5	3.2	2.0	2.6	2.6	2.5	2.1	2.8	2.8	-6.7	-5.5	-4.0
Emerging Economies															
BRICs															
Brazil	2.9	3.0	1.5	9.3	4.7	4.0	9.5	8.2	8.5	-2.8	-2.1	-2.2	-4.6	-7.5	-6.8
China	3.0	5.0	4.5	2.0	0.6	1.9	4.9	5.3	5.1	2.2	1.5	1.2	-4.7	-5.5	-4.5
India	7.0	6.2	6.4	6.7	5.4	4.7		NA		-2.1	-1.5	-1.7	-6.4	-5.9	-5.3
Russia	-2.1	1.9	1.2	13.8	5.7	5.4	3.9	3.3	3.4	10.2	2.1	3.0	-2.2	-2.7	-1.5
CESEE															
Bulgaria	3.4	1.7	2.5	15.3	9.6	4.1	4.3	4.4	4.5	-0.7	-0.5	-0.3	-2.8	-3.1	-3.0
Turkey	5.4	4.0	3.1	72.0	52.7	35.6	10.5	9,7	9,2	-5.4	-6.8	-5.5	-0.9	-4.0	-2.3

Sources: European Commission, World Bank, IMF, OECD, Bureaus of National Statistics, Bloomberg, Eurobank Research

Eurobank Fixed Income Forecasts

	Current	December-23	March-24	June-24	September-24
USA					
Fed Funds Rate	5.25-5.50%	5.29-5.55%	5.18-5.45%	4.84-5.10%	4.43-4.70%
3m SOFR	5.41%	5.40%	5.24%	4.99%	4.65%
2yr Notes	5.50%	5.55%	5.45%	5.10%	4.70%
10yr Bonds	5.25%	5.29%	5.18%	4.84%	4.43%
Eurozone					
Refi Rate	4.50%	4.40%	4.35%	4.15%	3.90%
3m Euribor	3.96%	3.89%	3.84%	3.69%	3.49%
2yr Bunds	3.21%	2.75%	2.57%	2.52%	2.43%
10yr Bunds	2.97%	2.43%	2.34%	2.35%	2.30%
UK					
Repo Rate	5.25%	5.35%	5.40%	5.25%	4.95%
3m Sonia	5.29%	5.66%	5.65%	5.51%	5.24%
10-yr Gilt	4.60%	4.14%	3.98%	3.82%	3.71%
Switzerland					
3m Saron	1.71%	1.72%	1.83%	1.75%	1.57%
10-yr Bond	1.12%	1.13%	1.09%	1.06%	1.04%

Source: Bloomberg (market implied forecasts)

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