Eurobank Monthly Global Economic & Market Monitor

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Olga Kosma, Economic Analyst

Paraskevi Petropoulou, Economic Analyst

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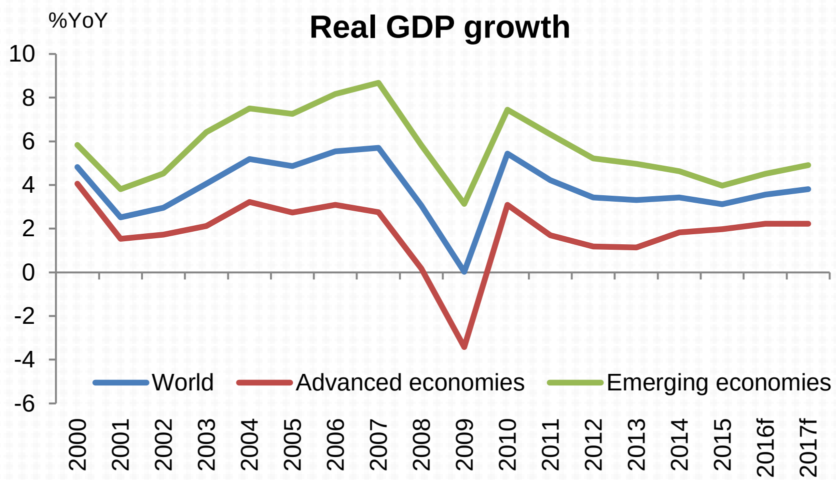
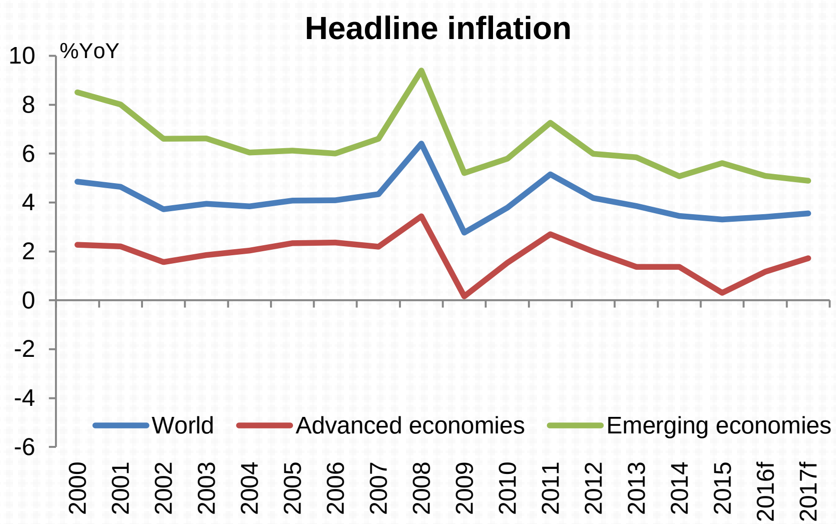
I. Economics

Global Outlook & Risks in 2016





Source: IMF, Eurobank Economic Research

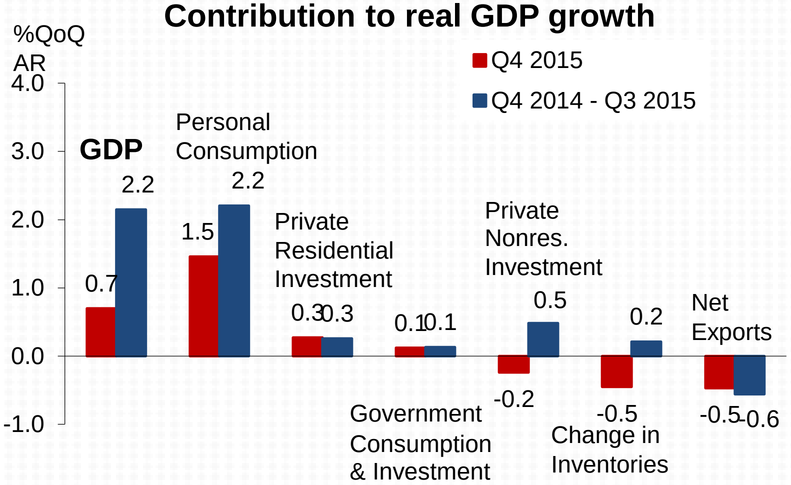
- Global growth is expected to move broadly sideways, hovering around 3.3% in 2016 from 3.1% in 2015, the slowest pace in the post-crisis period. Growth in advanced economies will probably accelerate on resilient domestic demand, while EM growth is likely to pick up slightly on shallower recessions in Brazil and Russia and higher GDP growth rate in India.

- In the US, we expect sub-par rates of growth over the next couple of years (~2.5%). The EA economy seems resilient to global slowdown on low oil prices, a weaker EUR and easier ECB monetary policy. In Japan, stronger private consumption, together with a modest rise in investment, should help to offset a slowdown in Japanese exports to emerging Asia.

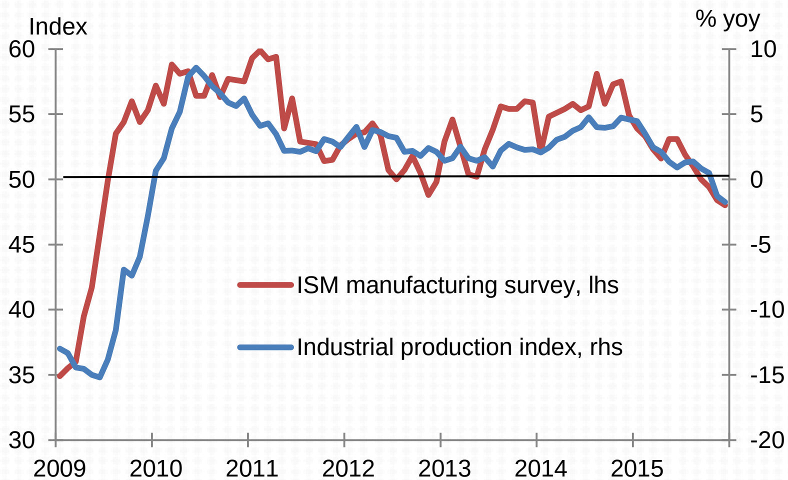
- Risks:
  - Chinese economy slowdown: Soft or Hard landing? Is China headed to a financial crisis? Lack of transparency of Chinese macro data and policymaking makes international financial markets shaky.
  - Commodities & Oil prices collapse: Is it a zero sum game for global growth? Gains for net importers (Developed) vs. Losses for net exporters (Russia, Brazil). Negative spillovers for world trade.
  - Divergent monetary policies of the major central banks: Capital outflows from EMs
    - Pace of Fed's tightening in 2016 & BoE to follow?
    - Is more QE from ECB and BoJ likely?
    - PBoC accommodative stance to become more aggressive?
    - Implications: More pressure on those with high level of dollarization: Turkey & Ukraine.
  - (Geo) political risks around the globe
    - European politics: BREXIT Debate & EU-Russia relations, EU election calendar ahead (Spanish re-elections? Portugal, Austria, France & Germany run up in 2017).
    - Middle East: Refugees crisis vs. ISIS terrorism attacks & Saudi-Iran escalation.
    - Russia-Ukraine conflict & Korean peninsula arms race.

USA: Moderate rates of growth as strong domestic fundamentals are offset by weak external environment

Contribution to real GDP growth



The US manufacturing sector is struggling

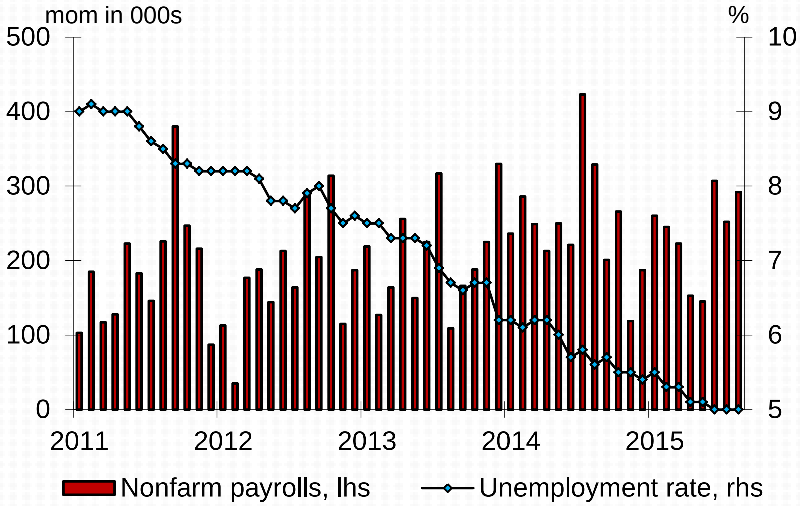


Source: US BEA, University of Michigan, Eurobank Economic Research

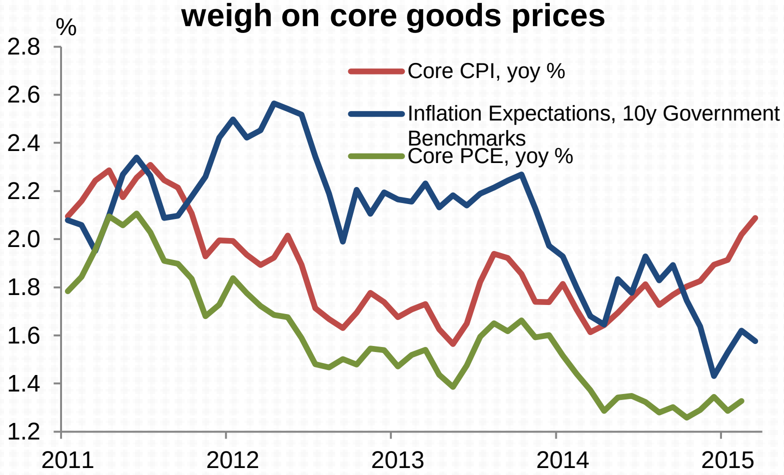
- According to the BEA' s advance estimate, Q4 real GDP growth decelerated to 0.7%QoQ saar from 2.0% in Q3, with private consumption increasing by 2.2%QoQ saar and, therefore, contributing 1.46pp to GDP growth. Elsewhere, private residential investment added 0.3pp to overall economic activity in line with its trend during the previous four quarters. On the flipside, fixed nonresidential business investment decelerated at year-end partly reflecting the slowdown in the US manufacturing sector and lower oil investments. Moreover, net exports and inventory accumulation subtracted from GDP growth 0.5pp each, as the strong dollar led exports to drop by 2.5%QoQ while sluggish business investment and weak foreign demand for US manufactured goods resulted in slower aggregate inventory growth.
- We expect the US growth trend of resilient domestic demand and faltering EM demand to continue well in 2016, with the average 2016 real GDP growth hovering around 2.6% from 2.5% in 2015. Given that oil-related investments will probably continue to constitute a drag for overall growth for some time and the weak performance of the manufacturing sector, we expect private consumption to remain the major growth driver, given accelerating employment growth and declining unemployment rate.

USA: Despite a strong labor market, Fed likely to proceed with gradual rate hikes amid low inflationary pressures

Dynamic momentum of the US labor market



Strong USD and low oil prices weigh on core goods prices

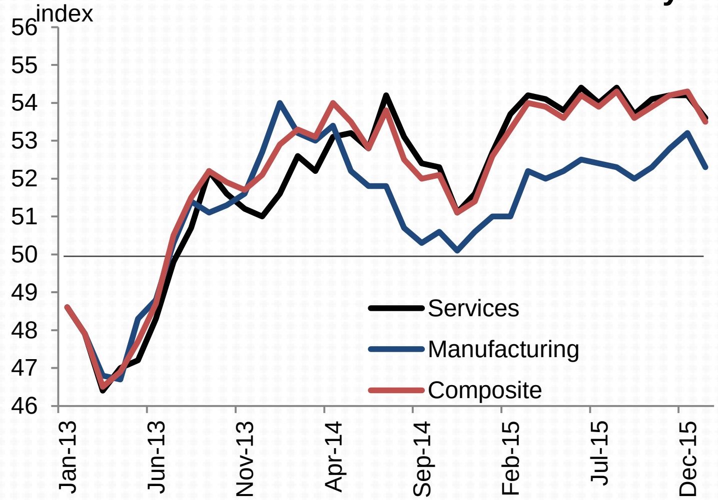


Source: US BEA, Federal Reserve, Eurobank Economic Research

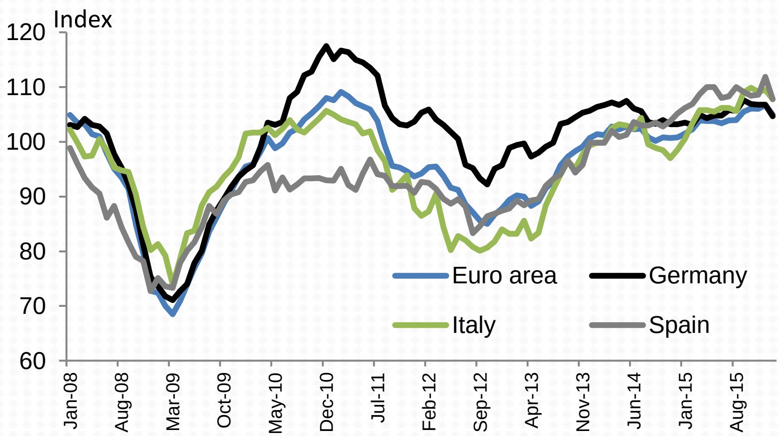
- US nonfarm payrolls increased by 292k in December, well above consensus expectations for a rise of 200k. Adding to this, the initial November estimate of 211k was revised to 252k, with monthly job gains averaging 284k in Q4 2015 from 174k in Q3 2015. Civilian household employment surged by 485k in December, while the participation rate rose slightly to 62.6%. Despite strong employment growth, the unemployment rate remained unchanged at 5.0% between October and December, as previously discouraged workers have began actively seeking work again. Nevertheless, although underemployment has declined sharply, it still remains very high, suggesting that the Fed will probably continue only gradually with its normalization process. Meanwhile, shadow underemployment [U6=U3(jobseekers)+people who want to work but are not actively seeking a job+part-timers due to economic reasons] keeps wage growth sluggish, which in turn deters US households from spending their savings generated from low energy prices.
- Headline CPI declined 0.1%MoM in December (+0.7%YoY), with energy prices falling 2.4% on the month (-12.6%YoY). Excluding energy and food, core CPI rose 0.1%MoM (2.1%YoY) after posting a 0.2% increase in the previous month. We continue to expect that the strong US dollar and the ongoing decline in oil prices will continue to weigh on core goods prices in 2016.
- Given that the Fed kept all options open at its January 26-27 meeting by not communicating its future monetary policy intentions, we share the view that a further deterioration in global economic and financial developments could prompt the FOMC to stand pat at the upcoming meeting scheduled for March 15-16, while an improvement in the US economic and inflation data, coupled with a stabilization of financial markets, could open the door for a second interest rate hike.

Euro area: Domestic demand remains the main driver of growth

Euro area PMIs decelerate in January



Euro area Economic Sentiment Indicator

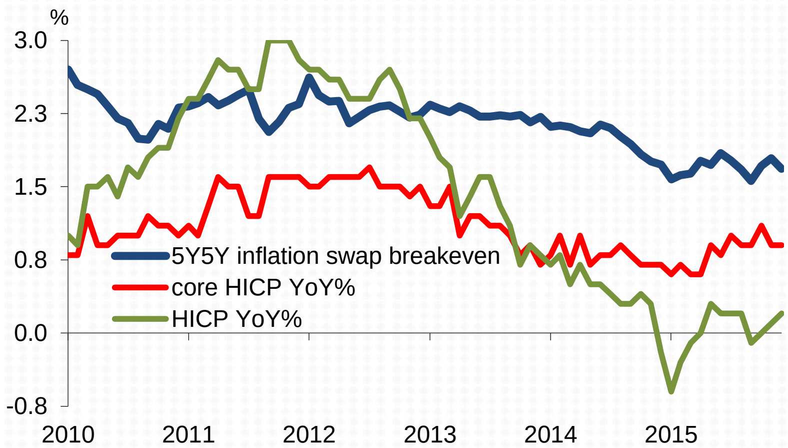


Source: ECB, Eurostat, Eurobank Economic Research

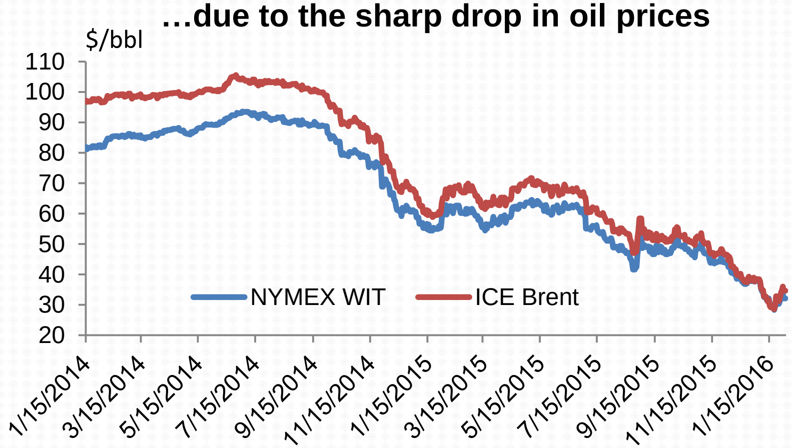
- The final GDP estimate of Q3 2015 was unrevised from the flash reading at 0.3%QoQ, down from 0.4%QoQ in Q2 and 0.5% in Q1. Private consumption was the main pillar of growth, (+0.4pp), followed by changes in inventory accumulation (+0.2pp), while net trade subtracted 0.3pp from overall GDP. The latter was driven by a sharp decline in exports growth to EM as imports growth remained unchanged at 0.9%QoQ, in line with robust domestic demand.
- Euro area January final manufacturing PMI declined to 52.3 from 53.2 in December which was the highest print since April 2014. Lower output and new orders drove down manufacturing confidence. Although lower oil prices weighed on input and output prices, all sub-indices remained well above their long-term average.
- Euro area HICP inflation increased to 0.4%YoY in January from 0.2% in December, with energy price inflation increasing to -5.3%YoY from -5.8%YoY in the prior month. Positive base effects are not expected to continue going forward, as the annual decline in energy prices in February will probably push headline CPI back into negative territory. Elsewhere, January core inflation came in at 1.0%YoY from 0.9% previously, with non-energy industrial goods price inflation re-accelerating to +0.7%YoY after remaining unchanged at +0.5% in the previous two months.
- On balance, we expect 2016 real GDP growth to accelerate towards 1.7% from 1.5% in 2015, supported by low energy prices, a weaker EUR and easier financial conditions amid looser monetary and fiscal policy. Nevertheless, risks are titled to the downside on external and political risks that could keep exports and capital investment under pressure.

Euro area: Downside risks on inflation could prompt further easing ahead

Low inflationary pressures…



…due to the sharp drop in oil prices

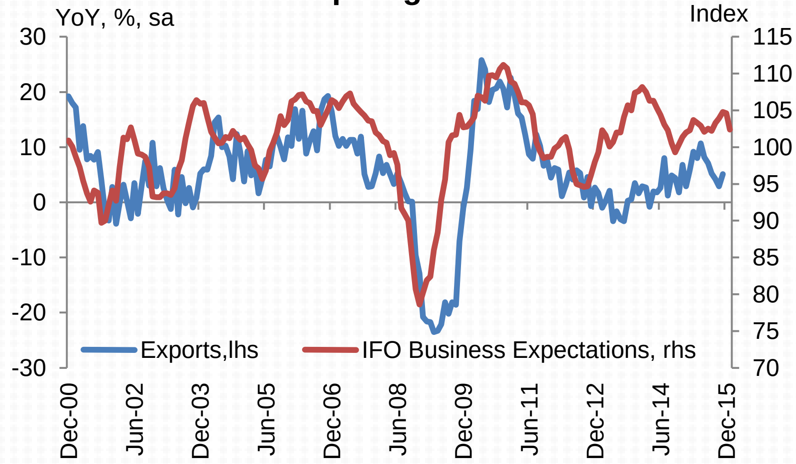


- As widely expected, the ECB Governing Council decided to keep its monetary policy unchanged at its regular monetary policy meeting on Thursday 21 January, after adopting a new round of easing measures just a month earlier.
- Adopting a more dovish than expected tone, the ECB President also made clear that the Central Bank has "power, willingness and determination" to do whatever is needed to pursue its price stability mandate, and revealed that all members of the Executive Board unanimously agreed that the monetary policy stance would be reviewed and possibly reconsider at the March meeting, when the new staff macroeconomic projections including the year 2018 will be published.
- In our view, should the ECB decide to ease further in its March monetary policy meeting, it will likely cut the deposit facility rate by another 10bp to -0.40%, given that the minutes from the December meeting suggested that further rate cuts might be the preferred tool. In the adverse scenario that global outlook deteriorates more significantly than currently expected (sharper deceleration in China and other EM economies and/or downtrend in commodity and oil prices), inflation expectations move lower or/and the EUR firms against its major currency peers, the ECB could potentially consider, among others, a larger than 10bps rate cut and/or an expansion/extension of the €60bn monthly QE purchases.

Source: ECB, Eurostat, Eurobank Economic Research

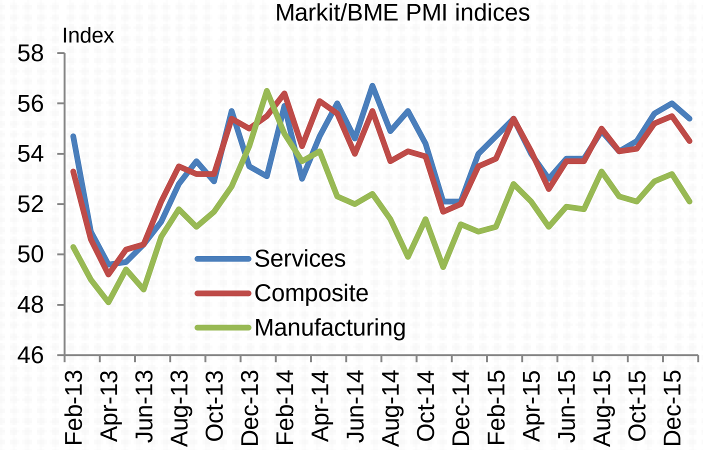
Germany: Private and government consumption expenditures to offset weak external demand

IFO business expectations point to a sluggish export growth



German confidence eases slightly in January

Markit/BME PMI indices

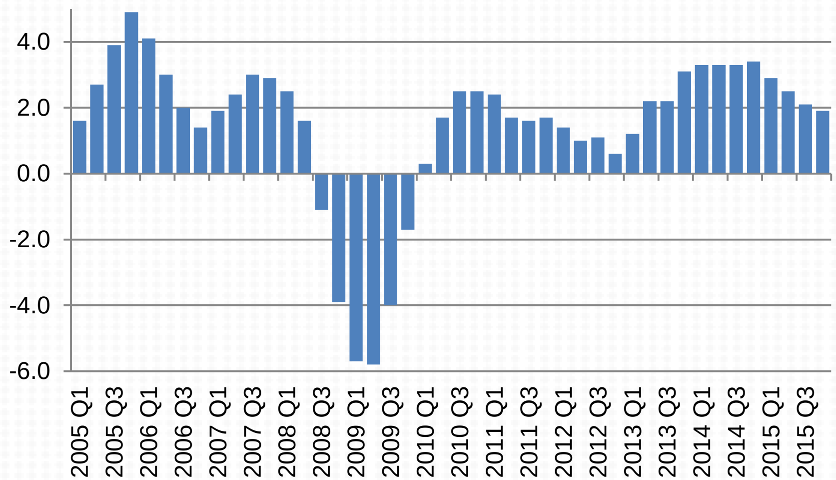


Source: Eurostat, Markit, Eurobank Economic Research

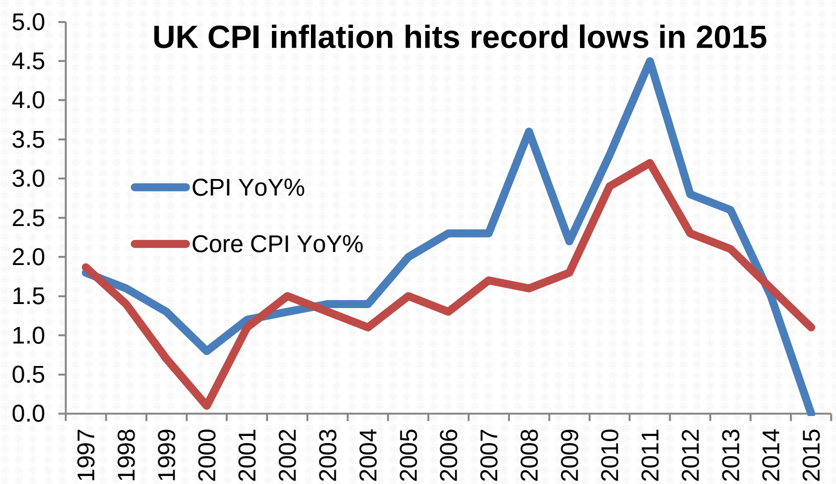
- In line with Germany's trend growth rate, Q3 real GDP increased by 0.3%QoQ from 0.4%QoQ in Q2, reflecting a sharp weakening in exports amid a slowdown in global demand. Nevertheless, domestic demand was a major contributor to overall GDP growth, with total consumption expenditures capitalizing on the record influx of migrants to Germany in 2015.
- Despite the weaker euro, the recent sharp drop in IFO business expectations suggest a rather sluggish pace of export growth in the following months. In more detail, the IFO business climate indicator came in below expectations in January (at 107.3 from 108.6 in the prior month) primarily on the back of a large decline in business expectations (to 102.4 from 104.6) and a slight fall in the assessment of the current economic situation (to 112.5 from 112.8). Adding to this, German composite PMI came in slightly lower than expected in January at 54.5, albeit not too far from December's 17-month high at 55.5. The decline in the composite PMI indices was mainly driven by weakness in the manufacturing sector on a slowing external demand.
- Looking ahead, we expect real GDP growth to accelerate to 1.7% in 2016 from 1.5% in2015, with domestic demand receiving an additional boost from stronger government spending to support asylum applicants. Moreover, private consumption should continue benefiting from a stronger labor market and higher real wages. Risks to our economic outlook centre on a deterioration of global trade or/and an unwarranted EUR appreciation.

UK economic activity to remain robust this year, CPI inflation to accelerate in H2

UK GDP (QoQ% annualised)



UK CPI inflation hits record lows in 2015

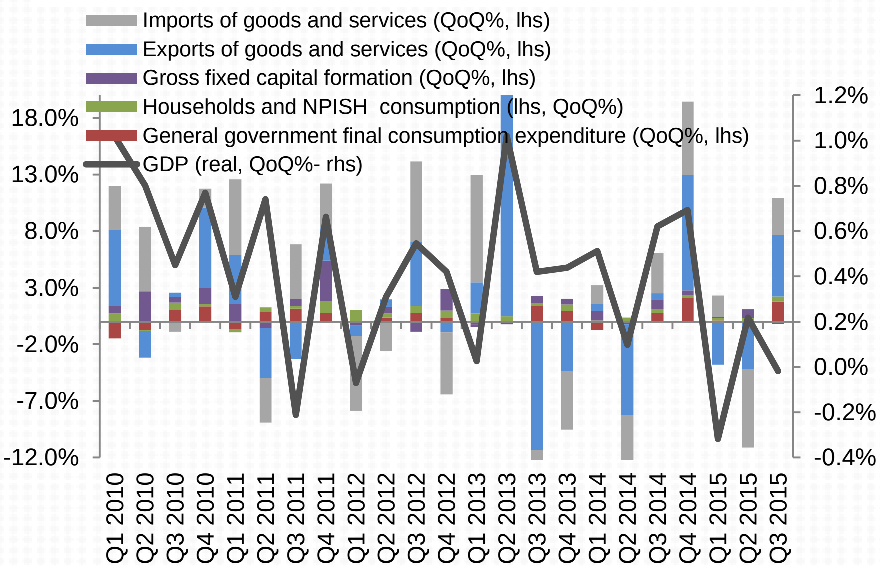


Source: UK Office for National Statistics, Eurobank Economic Research

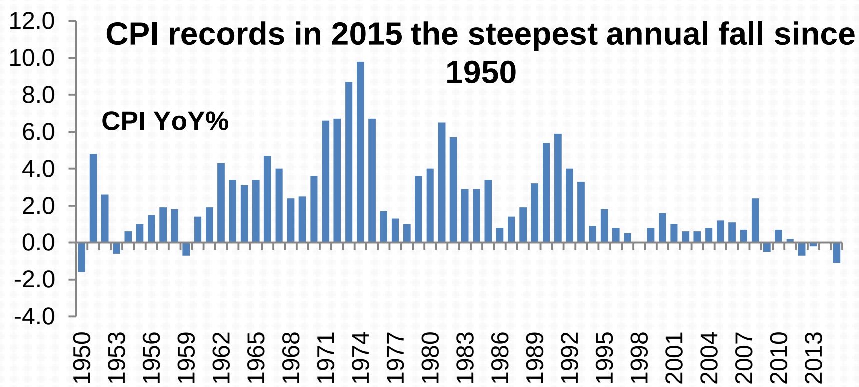
- With both the unemployment and the participation rate standing at multi-year lows, UK economic activity is expected to remain robust in 2016 with real GDP growth rising 2.2%, the same rate of last year. Domestic demand is anticipated to remain the main growth driver supported by rising real incomes and falling saving rates. Yet, this year's outlook is overshadowed by a number of risks. Chancellor of Exchequer's commitment to accelerate the pace of fiscal consolidation may weigh on domestic demand, while uncertainty about the outcome of the upcoming referendum on the country's EU membership- expected by the end of this year- could exert a negative impact on business investment growth and consumer confidence. Subdued world trade growth poses another headwind for the UK economy.
- Down from 1.5%YoY in 2014, CPI inflation averaged 0.0%YoY in 2015, the lowest reading since comparable records began in 1950. In view of the recent further fall in global oil and commodity prices and a slowdown in wage growth since the middle of last year, CPI inflation is expected to remain subdued in the foreseeable future, before starting to accelerate in midyear moving into the BoE's 1%-3% target range by early Q4 on favorable base effects from oil prices. This holds in the absence of a renewed downward shock in oil prices and the assumption that the tightening labor market will start feeding through into rising wage costs. Against this background, the BoE is not anticipated to push interest rates higher before late 2016, with the risks skewed towards a later hike.

Switzerland to gain some momentum this year, inflation to accelerate

Switzerland's real GDP growth (QoQ%, sa)



CPI records in 2015 the steepest annual fall since 1950

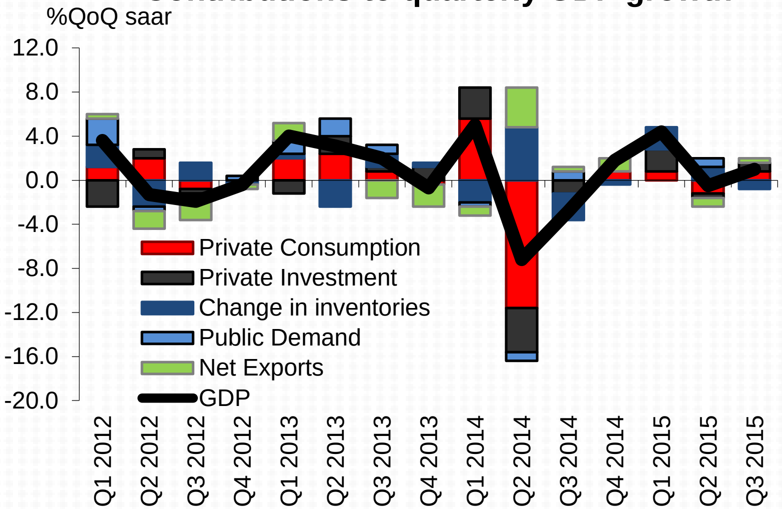


- Switzerland's real GDP is expected to gain some momentum in 2016 with real GDP growth accelerating to 1.5% from 0.9%YoY in 2015 (Q4 2015 GDP is due on March 2). Government spending and personal consumption are projected to continue growing at a solid pace, with the latter capitalizing on relatively robust real income growth. In addition, exports growth is likely to accelerate amid expectations for an ongoing recovery in the euro area (the euro area constitutes one of Switzerland's largest trading partners with ca. 21% of exports shipped to Germany and ca. 55% in the whole euro area).
- Headline CPI growth rate remained into negative territory in 2015 for the third year in the last four falling by -1.1%YoY, the steepest drop since 1950 mainly due to lower oil prices and the firmer CHF following the SNB's decision in January 2015 to abandon the 1.20 peg to the EUR (the trade weighted index of CHF has increased by c. 6% since January 2015). For FY-2016, inflation is expected to increase averaging -0.3%YoY, mainly on the assumption that strong base effects will decrease due to the oil price decline and the FX cap removal.

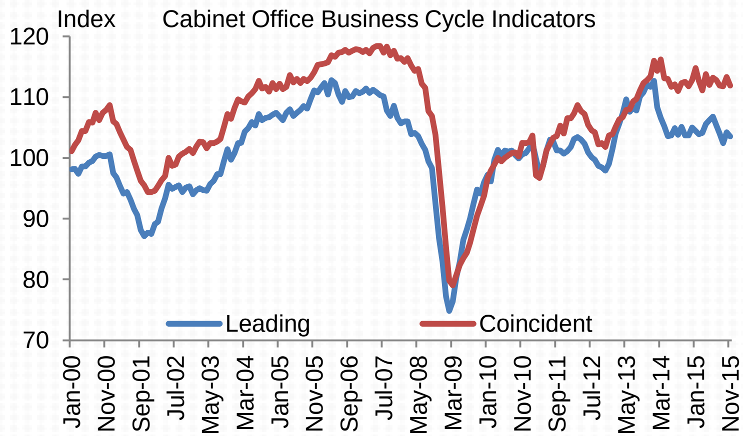
Source: Eurobank Economic Analysis and Financial Markets Research, Bloomberg

Japan: Stronger consumption to counterbalance exports' slowdown resulting from weaker EM demand

Contributions to quarterly GDP growth



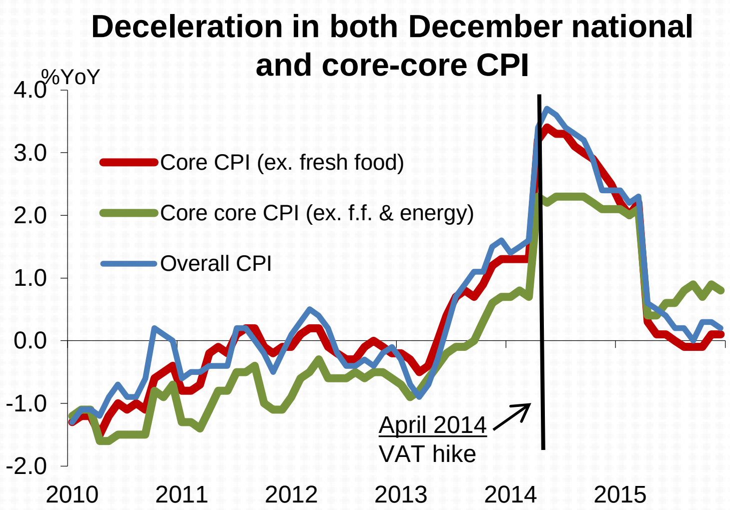
Japanese economy has stalled since the 2014 VAT increase

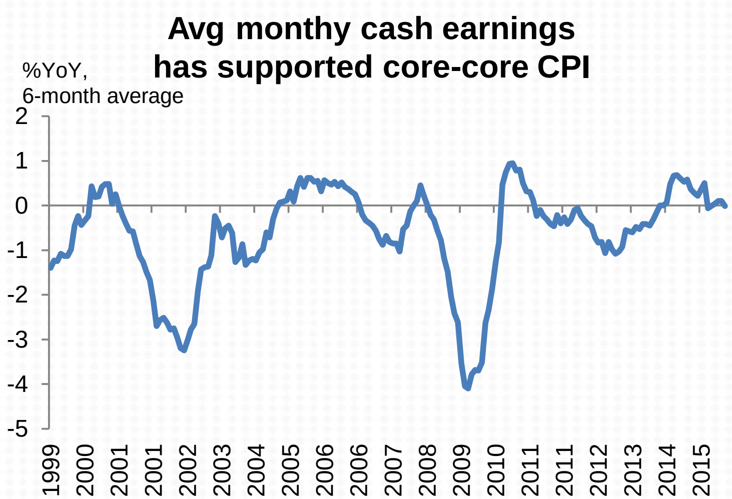


- Q3 real GDP growth was revised upwardly to 1.0%QoQ saar in the second preliminary release from -0.8%QoQ saar in the initial estimate mainly due to private inventory accumulation and capex. The contribution of private inventories to quarterly real GDP growth was revised to -0.2pp from -0.5pp, while private nonresidential investment growth was adjusted to +2.3%QoQ saar from -5.2%QoQ saar. We expect real GDP growth to hover around 0.5-1.0%QoQ saar in Q4 2015, with sluggish private consumption and an acceleration in real exports to Europe and Asia.
- Looking ahead, we maintain our 2016 GDP forecast at 1.0% from 0.6% in 2015, with further gains in employee compensation leading to stronger household spending. Fiscal policy should also support the household sector, as the proposed JPY3.5trn supplementary budget includes subsidies for 12.5mn low income households. Our expectations are based on the assumption that the consumption tax will not be raised (to 10.0% from 8.0% currently) before April 2017, as initially scheduled.
- The main downside risks to our outlook for the Japanese economy focus on a significant deterioration in Japan's main trading partners, especially in emerging Asia (and particularly China), and/or renewed financial market turbulence that could lead to a stronger JPY or a sharp drop in Japanese share prices.

Source: Economic and Social Research Institute (ESRI), Eurobank Economic Research

Japan: Weak inflationary pressures has prompted the BoJ to ease monetary policy further



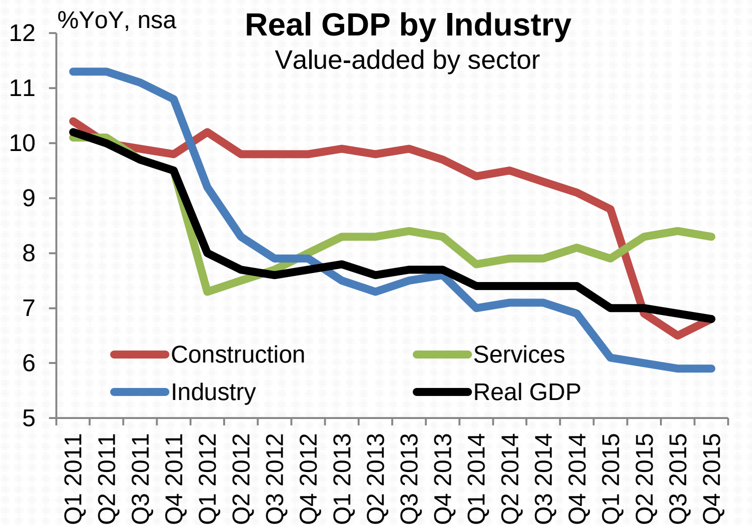


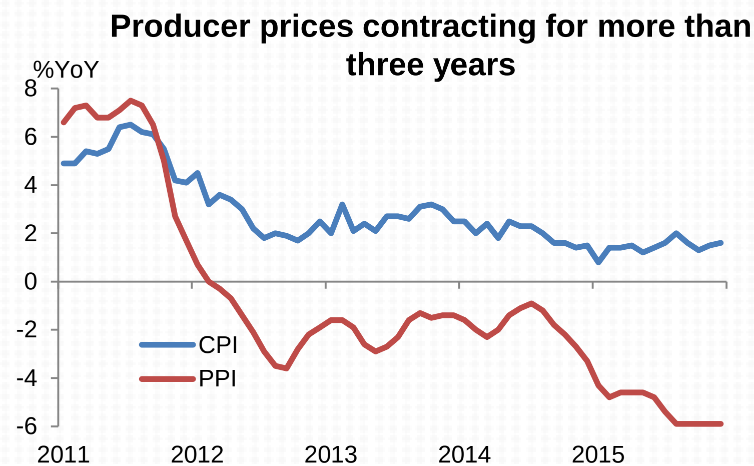
- The December headline CPI decelerated to +0.2%YoY from 0.3% in November, while the national core CPI remained unchanged at +0.1%YoY, in line with the market forecast. Excluding food and energy, the core-core CPI softened to +0.8%YoY from +0.9% in the prior month, falling short of market expectations for a rise of 0.9%YoY. CPI's future path will be largely dependent on energy prices and the impact from past JPY depreciation on import prices. We expect the national core CPI to remain around zero levels, given that energy prices have declined further in January and the positive impact from JPY depreciation is also gradually fading.

- In a surprise move, the Bank of Japan (BoJ) announced that it will introduce a negative interest rate with a three-tier system effective on February 16, where banks' current accounts will be divided into three tiers: (a) the Basic Balance, i.e. the average balance during the reserve maintenance period January-December 2015 will continue to have a rate of 0.1%, (b) Macro Add-on Balance, i.e. the balance of required reserves and reserves related to the bank's lending support programs will have a rate of 0.0% and finally (c) the Policy-Rate Balance, a rate of -0.1% will apply to any reserves in excess of the "Basic Balance" and "Macro Add-on Balance". Meanwhile, the BoJ left its QQE program unchanged, i.e. an annual monetary base increase of JPY80trn (ca. 16% of GDP). Given that the Central Bank committed to lower interest rates further into negative territory if judged necessary, we share market consensus for further BoJ easing in 2016.

Source: Economic and Social Research Institute (ESRI), Eurobank Economic Research

China: Gradual economic slowdown with persistent disinflationary pressures

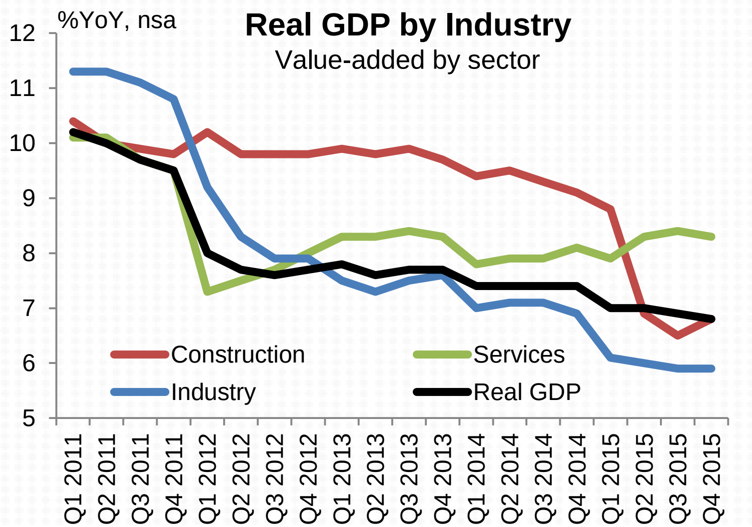


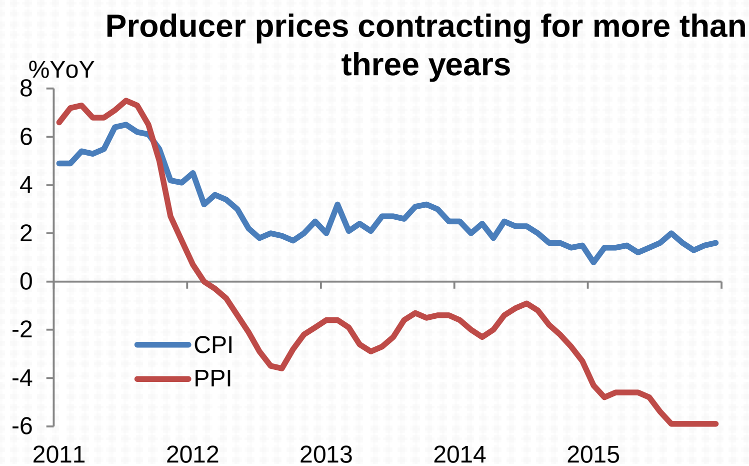


- Real GDP growth decelerated to a weaker-than-expected 6.8%YoY in Q4 2015 from 6.9%YoY in Q3, revealing slower services growth which offset stronger construction growth amid higher government spending on infrastructure. Elsewhere, growth in industry has shown signs of stabilization in the final quarter of 2015 after slowing for five consecutive quarters.
- The Chinese economy is expected to remain on a downward trend in 2016 even assuming continuing fiscal and monetary support to counter continuing headwinds from excess debt and excess capacity, with real GDP decelerating to 6.4% from 6.9% in 2015. Although policymakers are expected to increase infrastructure spending to support growth, weak private investment in manufacturing and real estate sectors should continue to weigh on China's growth momentum given the slowdown in export growth and the ongoing unwinding of property inventory.
- The weaknesses in both domestic and external demand have exacerbated the deflationary pressures in the economy. PPI has been contracting for more than three years, while GDP deflator has been in negative territory since early 2015.

Source: National Bureau of Statistics of China, Eurobank Economic Research

China's FX policy a key market issue for 2016





Source: National Bureau of Statistics of China, Eurobank Economic Research

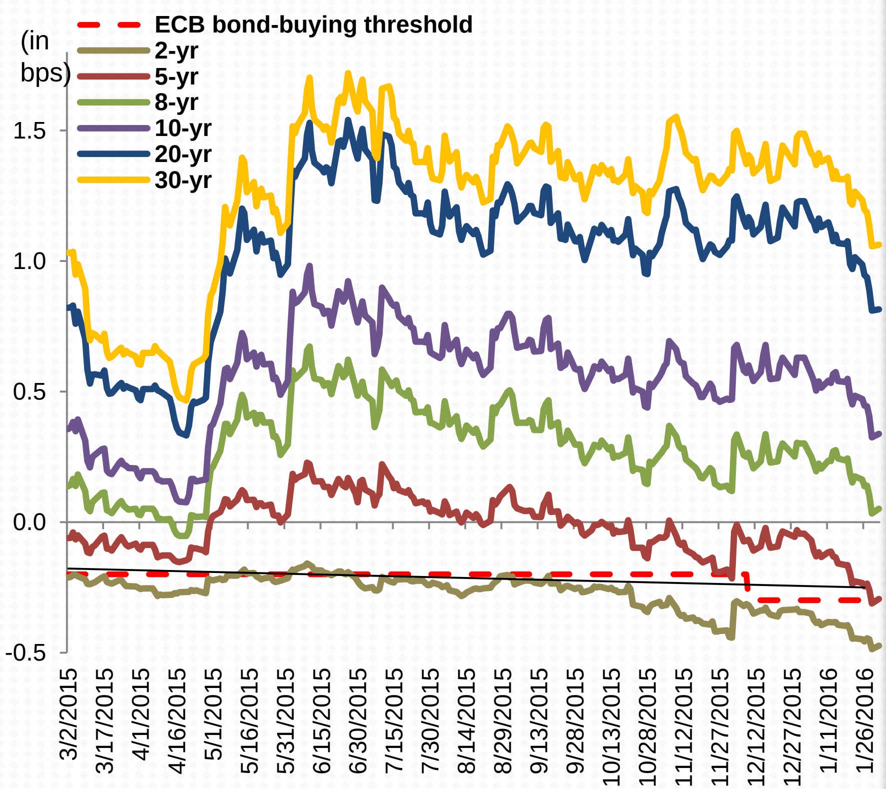
- We expect policymakers to pursue further stimulus in both monetary and fiscal front. On the monetary front, the PBoC could proceed with more interest rate and RRR cuts in 2016 to keep liquidity growth broadly stable, while policymakers should keep fiscal policy relatively expansionary (i.e. extension of the local debt swap in 2016-17, tax cuts/faster expenditure, financial bond issuance).

- China's FX policy will remain a key market concern in 2016. Changes in PBoC's FX policy includes a more market based currency:
  - "A managed floating exchange rate regime" with a +-2% band around a fix set daily by the PBoC.
  - CNY managed against a basket of currencies, rather than just the USD. Devaluations vs. USD in Aug2015 and Jan2016 helped keep the CNY stable against the basket of other currencies, but markets perceived moves as competitive devaluations, reviving concerns about Chinese growth prospects (lack of clarity on China's FX goal).
  - Authorities may seek to prevent further CNY rise should USD appreciate. Yuan volatility will probably prevail.

II. Fixed Income

German government bonds likely to retain a firm tone on expectations for further ECB monetary stimulus

German government bond yields lower across the curve



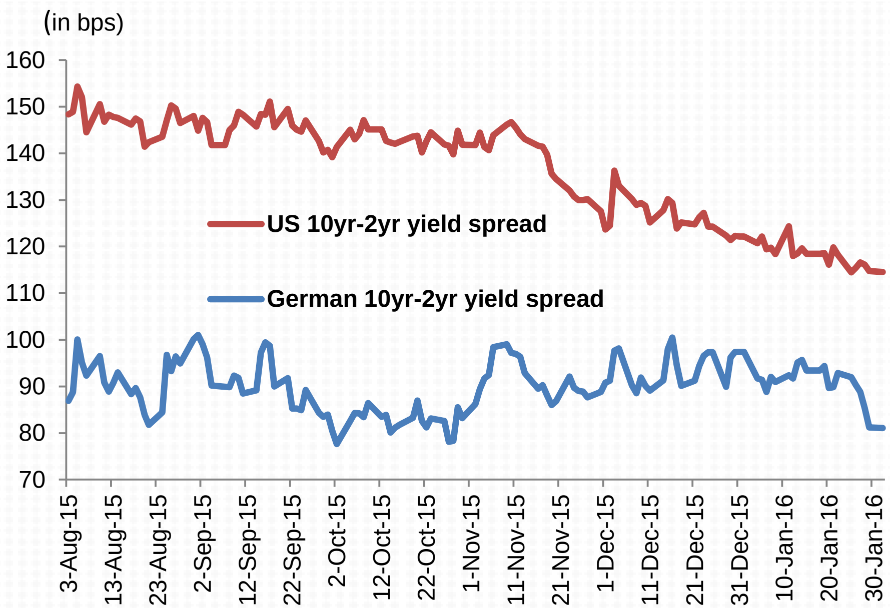
Source: Eurobank Economic Analysis and Financial Markets Research, Bloomberg

- Global equity markets' lackluster performance since the beginning of this year, heightened global deflation fears mainly on the back of lower oil prices and worries over a more pronounced than expected slowdown in the Chinese economy boosted the safe-haven appeal of global fixed income markets over the last few weeks. ECB President Mario Draghi's recent clear hints for further monetary policy easing at the next policy meeting on March 10th, when the updated macroeconomic projections are due, also favored market sentiment towards sovereign paper. Against this background, German bond yields moved lower across the curve with long-dated paper outperforming on deflation woes.

- With markets already discounting fully a 10bps rate cut at the March ECB policy meeting, yields are expected to consolidate around current levels on a multi-session basis. Yet, should upcoming euro area inflation data support expectations for a more aggressive ECB stimulus package at the March monetary policy meeting, (e.g. extension in the pool of assets eligible for purchase under the Public Sector Purchase Programme-PSPP or/and reduction in the deposit rate by more than 10bps), German bond yields are likely to move even lower, triggering a further flattening in the 2/10-yr bond yield curve.

US Treasury yields likely to range trading amid uncertainty over the pace of FOMC rate tightening ahead

German & US 10yr-2yr yield spread

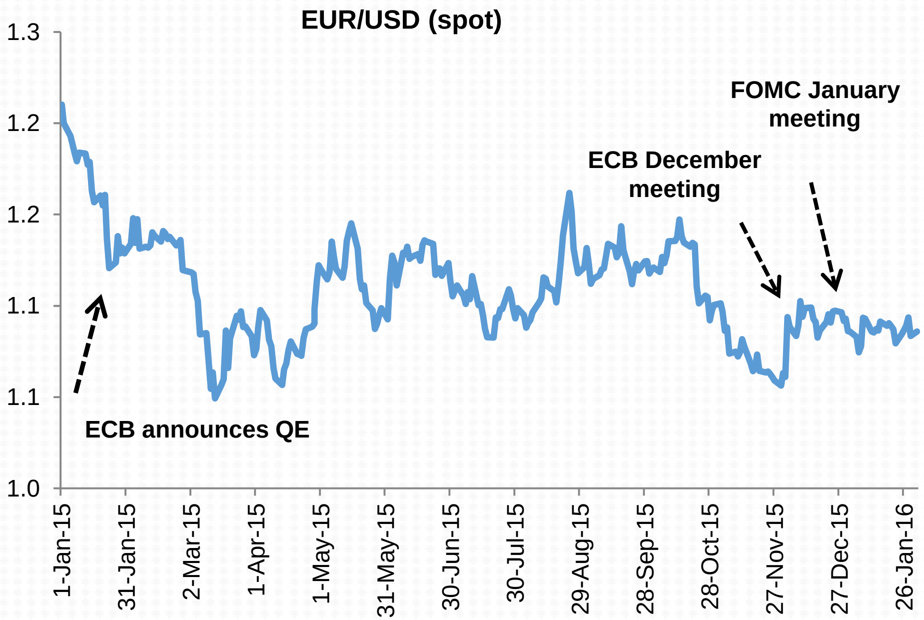


Source: Eurobank Economic Analysis and Financial Markets Research, Bloomberg

- The overall tone of the January FOMC policy statement suggested that policy members have become more worried, than appeared in December, over the impact of recent global developments on the outlook of domestic economic activity and inflation. That said, policy members will likely take a cautious stance scrutinizing upcoming US data and global financial developments before moving on with further rate tightening.
- Against this background, long-dated US Treasury yields are expected to remain range-bound with 10-yr yields trading in the 1.90%-2.25% range in the next few weeks, as investors await strong signals from FOMC speakers or/and US data for the timing of the next rate hike and the pace of rate tightening ahead.
- Following recent strong signals by ECB President Mario Draghi for additional monetary policy accommodation in March, German Bunds will likely continue to outperform US Treasuries in the period ahead with the corresponding spread undertaking some further widening.

III. FX Markets

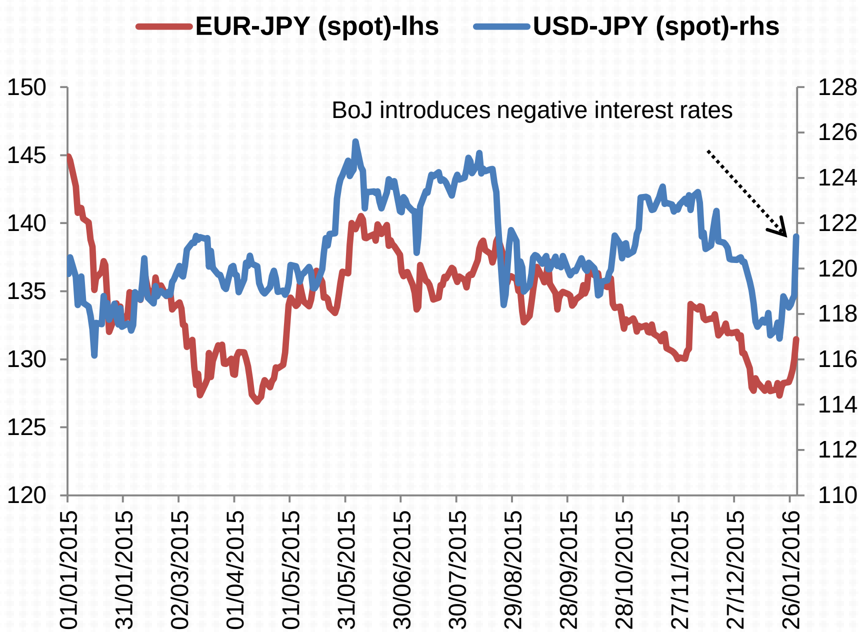
EUR/USD consolidation likely to prevail



Source: : Eurobank Economic Analysis and Financial Markets Research , Reuters

- At the January 26-27 January monetary policy meeting, the Fed adopted a cautious stance leaving options open as to whether it will stand pat on its monetary policy or will push interest rates higher at the next policy meeting scheduled for March 15-16. Understandably, lasting improvement in global financial markets and solid US economic data are necessary prerequisites for the Fed to consider the likelihood of another rate hike as soon as next month. Yet, amid mounting concerns about the sustainability of the US economic recovery, the prospect of the Fed waiting longer than currently expected until implementing further rate hikes cannot be ruled out. Meanwhile, the ECB is widely expected to adopt additional monetary stimulus at the March 10th policy meeting in the form of more quantitative easing or/and in the form of lower interest rates. Yet, it remains to be seen how aggressive the ECB will be after the stimulus package adopted in December was perceived as less dovish than expected, causing EUR/USD to rally 3% on the day, the biggest daily gain in more than five years.
- Against this background, EUR/USD consolidation within the trading range of 1.0700-1.100 that has formed since the beginning of this year will likely prevail in the coming sessions/weeks, with investors becoming increasingly sensitive to upcoming US/Euro area economic data and comments by Fed/ECB officials. FOMC Chair Janet Yellen delivers on February 10 the semi-annual Congressional testimony.

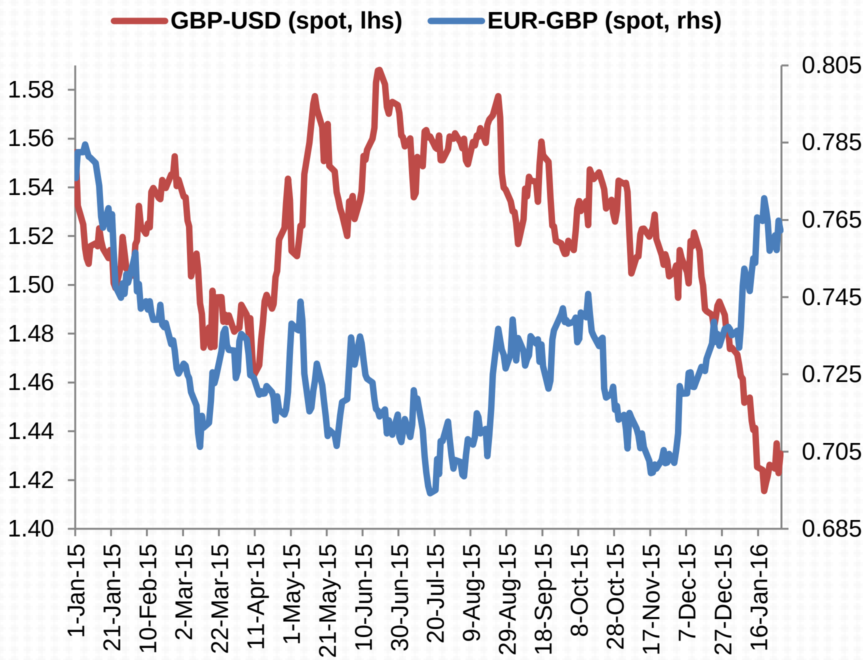
Expectations of further BoJ monetary easing likely to keep the JPY under pressure



Source: Eurobank Economic Analysis and Financial Markets Research, Reuters

- The BoJ surprised markets at its January 28-29 monetary policy by introducing a negative interest rate of 0.1% for the first time ever. While maintaining unchanged its monetary base target and the annual pace of asset purchases, the BoJ decided to introduce a three-tiered system on the outstanding balance of each financial institution's current account held at the Bank, as a combination of slowing global growth and heightened financial volatility undermine its effort to overcome deflationary pressures. Speaking in the post-meeting press conference, BoJ Governor Haruhiko Kuroda stressed that the Bank is prepared to lower the interest rate further into negative territory, if it deemed necessary, reaffirming the Bank's commitment to achieve its 2% inflation target. That said, the prospect of further monetary easing ahead cannot be ruled out with the results of the upcoming Japanese trade unions' wage negotiations in spring likely to be crucial for the future direction of the BoJ's monetary policy. The BoJ pushed back the time it expects to reach the CPI target by around six months in H1 FY 2017.
- The likelihood of additional BoJ easing is expected to keep the JPY under pressure in the coming sessions/weeks. After hitting a multi-week peak near 121.70 soon after the BoJ rate cut announcement, the next target for JPY-bears stands at 123.00/50 USD, a level that could be tested on a multi-week basis especially if upcoming developments support expectations for a more aggressive than currently projected pace of Fed rate tightening.

With a lot of bad UK news already priced-in, there seems scope for some further GBP-short covering



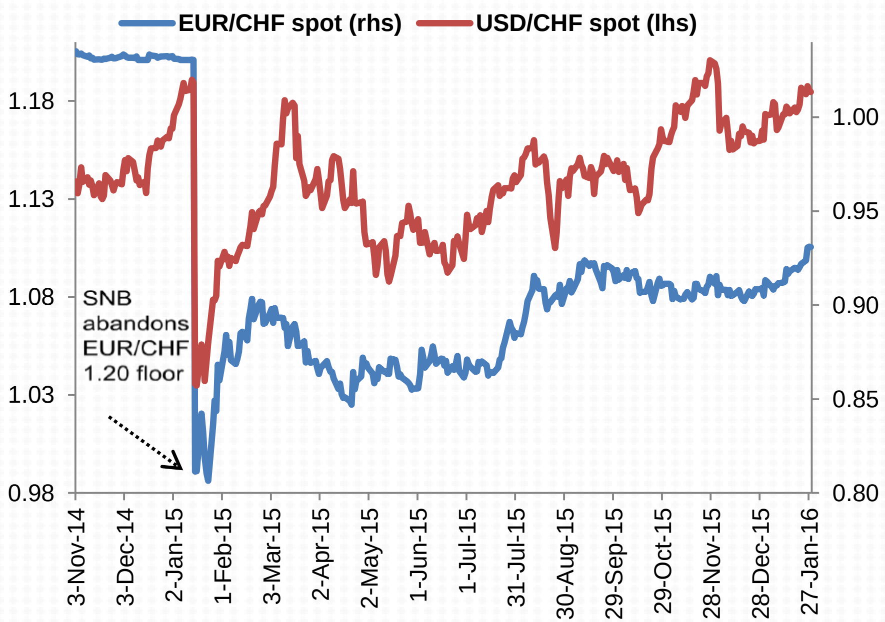
Source: Eurobank Economic Analysis and Financial Markets Research, Reuters

- In spite of a modest GBP upward move over the last few sessions, the GBP is weaker YTD mainly pressured by a dovish shift in BoE rate hike expectations. In a speech delivered in mid-January, BoE Governor Mark Carney suggested that the Central Bank will not rush to raise interest rates given weaker global growth and less stronger than previously expected domestic economic activity. Many of market participants share the view that the BoE will not embark on a rate tightening cycle before UK CPI moves to 1%, the lower boundary of the Bank's 1%-3% inflation target range, a development that is not expected before late Q3/ early Q4 2016. Market anxiety ahead of the upcoming referendum on the country's EU membership (probably to be held in H2 2016) may had also exerted a negative impact on the GBP.

- Yet, with a lot of bad UK news already priced-in, there seems scope for some further GBP-short covering as we head into the upcoming BoE monetary policy meeting and the release of the updated BoE Inflation Report, both scheduled for February 4. The February 18-19 EU Summit, where UK PM David Cameron's demands for EU reforms will dominate official discussions, catches market attention.

- Technically, strong support for the EUR/GBP stands at 0.7570 ahead of 0.7360. On the GPB/USD axis, the next target for GBP bulls lies at 1.4490 in the way to 1.4745.

Strongly negative interest rates do not bode well with the CHF's outlook



Source: Eurobank Economic Analysis and Financial Markets Research, Reuters

- In spite of market expectations for a new package of ECB monetary policy stimulus at the upcoming policy meeting in March and recent financial market jitters, which tend to enhance the demand for safe havens such as the Swiss franc, the CHF has depreciated vs. the EUR over the last few sessions. After moving in a tight rage of 1.0700-1.1000 since mid-2015, the EUR/CHF firmed breaking above the higher boundary in late January hitting a peak near 1.1165, the highest since early 2015 when the SNB unexpectedly abandoned the 1.20 floor.

- Looking ahead, the EUR/CHF is expected to remain in a slow but steady upward trend, hitting levels near 1.1500 in early H2 2016. Amid strongly negative Swiss interest rates, investors will likely continue to look abroad for investment in search for higher yields. This holds especially in case markets start pricing in a more aggressive than currently anticipated ECB policy stimulus. Such a development could reinforce expectations for an extension of negative Swiss rates on retail deposits or even further rate cuts from the SNB so as to prevent any significant CHF appreciation. In addition, the international agreement that was signed in Brussels in late May 2015 aligning Swiss bank practices with those of other countries and in effect putting an end on the special right of bank secrecy that clients of Swiss banks had enjoyed in the past, dents the safe-haven appeal of the CHF. On the USD axis, the CHF is expected to depreciate further on a multi week basis in view of diverging monetary policies between the Fed and the SNB. Technically, strong resistance lies at 1.0254 (Dec. 3 high).

IV. Eurobank Macro Forecasts

Eurobank Macro Forecasts

	GDP (YoY%)			CPI (YoY%)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
World	3.4	3.1	3.3	3.5	3.3	3.4						
USA	2.4	2.5	2.6	1.6	0.1	1.3	-2.2	-2.6	-2.7	-5.3	-4.0	-3.5
Europe												
Eurozone	0.9	1.5	1.7	0.4	0.0	1.0	3.0	3.7	3.6	-2.6	-2.0	-1.8
Belgium	1.4	1.3	1.3	0.3	0.6	1.5	0.1	1.8	2.0	-3.1	-2.7	-2.6
Cyprus	-2.5	1.5	1.8	-0.3	-1.5	0.5	-5.1	-5.5	-4.5	-0.2	-0.9	-0.1
France	0.2	1.1	1.4	0.6	0.1	1.0	-0.9	-1.3	-1.6	-3.9	-3.8	-3.4
Germany	1.6	1.5	1.7	0.8	0.2	1.0	7.4	8.7	8.6	0.3	0.9	0.5
Greece	0.7	-0.3	-1.0	-1.4	-1.1	0.5	-2.1	-0.5	0.8	-3.6	-3.2	-2.1
Ireland	5.2	6.0	4.5	0.3	0.3	1.4	3.6	5.9	5.7	-3.9	-2.2	-1.5
Italy	-0.4	0.9	1.5	0.2	0.2	1.0	2.0	2.2	1.9	-3.0	-2.6	-2.3
Netherlands	1.0	2.0	2.1	1.0	0.2	1.2	10.6	10.5	10.4	-2.4	-2.1	-1.5
Portugal	0.9	1.7	1.7	-0.2	0.5	1.1	0.6	0.5	0.5	-7.2	-3.0	-2.9
Spain	1.4	3.1	2.7	-0.2	-0.5	0.7	1.0	1.4	1.3	-5.9	-4.7	-3.6
Sweden	2.4	3.0	2.8	-0.2	0.8	1.5	6.1	5.9	5.9	-1.7	-1.4	-1.3
Switzerland	1.9	0.9	1.3	0.0	-1.1	-0.3	7.3	8.0	7.5	-0.2	-0.2	-0.3
UK	2.9	2.2	2.2	1.5	0.0	1.0	-5.1	-4.3	-3.9	-5.4	-4.4	-3.0

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

Eurobank Macro Forecasts

	GDP (YoY%)			CPI (YoY%)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Asia/Pacific												
Japan	-0.1	0.6	1.0	2.7	0.8	0.8	0.5	3.0	3.0	-7.1	-6.0	-5.7
Australia	2.6	2.3	2.5	2.5	1.8	2.5	-3.0	-4.2	-4.0	-2.1	-1.9	-1.5
Emerging Economies												
BRIC												
Brazil	0.1	-3.0	-1.0	6.3	8.8	6.3	-4.4	-3.4	-2.7	-4.0	-7.5	-7.2
China	7.3	6.9	6.4	2.0	1.5	1.8	2.1	3.1	2.8	-1.8	-1.0	-2.0
India	6.9	7.5	7.9	6.4	5.4	5.5	-1.4	-1.4	-1.6	-4.2	-6.6	-6.3
Russia	0.6	-3.8	-0.6	7.8	15.8	8.6	3.4	5.0	5.4	-0.7	-4.0	-3.2
CESEE												
Bulgaria	1.6	2.9	3.0	-1.4	-0.1	1.0	0.9	1.5	1.0	-3.7	-3.3	-2.0
Romania	2.9	3.8	4.1	1.1	-0.4	-0.1	-0.4	-1.0	-2.0	-1.9	-1.9	-2.8
Serbia	-1.8	0.8	1.8	2.1	1.5	2.8	-6.0	-4.7	-4.6	-6.7	-4.1	-4.0

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

Eurobank Fixed Income Forecasts

	2016				
	Current (Feb. 1)	**March**	**June**	**September**	**December**
USA					
Fed Funds Rate (%)	0.38%	0.38%	0.38%	0.38%	0.63%
1 m Libor (%)	0.43%	0.45%	0.53%	0.58%	0.64%
3m Libor (%)	0.61%	0.65%	0.70%	0.75%	1.12%
2yr Notes (%)	-0.48%	-0.47%	-0.48%	-0.47%	-0.46%
10 yr Bonds (%)	0.31%	0.34%	0.36%	0.38%	0.44%
Eurozone					
Refi Rate (%)	0.05%	0.05%	0.05%	0.05%	0.05%
3m Euribor (%)	-0.16%	-0.28%	-0.32%	-0.34%	-0.25%
2yr Bunds (%)	0.77%	0.89%	0.97%	1.05%	1.25%
10yr Bunds (%)	1.91%	1.99%	2.02%	2.10%	2.15%
UK					
Repo Rate (%)	0.50%	0.50%	0.50%	0.50%	0.50%
3m Libor (%)	0.59%	0.55%	0.56%	0.56%	0.58%
10-yr Gilt (%)	1.56%	1.60%	1.65%	1.70%	1.75%
Switzerland					
3m Libor Target (%)	-0.75%	-0.83%	-90.00%	-0.92%	-0.92%
10-yr Bond (%)	-0.30%	-0.28%	-0.26%	-0.23%	-0.20%

Source: Eurobank Economic Analysis and Financial Markets Research, Global Markets Trading

Eurobank FX Forecasts

		2016			
	Current (Feb. 1)	March	June	September	December
EUR-USD	1.0860	1.11	1.13	1.16	1.17
USD-JPY	121.30	120.00	118.00	118.00	118.00
EUR-JPY	131.70	132.60	133.34	136.88	138.06
GBP-USD	1.4275	1.47	1.53	1.59	1.60
EUR-GBP	0.7610	0.75	0.74	0.73	0.73
USD-CHF	1.02	1.01	1.01	1.01	1.01
EUR-CHF	1.1100	1.12	1.14	1.17	1.18
USD-CAD	1.404	1.38	1.36	1.32	1.28
USD-AUD	0.7065	0.72	0.74	0.74	0.75
USD-NZD	0.6460	0.66	0.68	0.68	0.70
EUR-SEK	9.2900	9.30	9.30	9.30	9.30
EUR-NOK	9.4100	8.40	8.35	8.30	8.20

Source: Eurobank Economic Analysis and Financial Markets Research, Global Markets Trading

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: Group Chief Economist
pmonokrousos@eurobank.gr, + 30 210 37 18 903

Dr. Tassos Anastasatos: Deputy Chief Economist
tanastasatos@eurobank.gr, + 30 210 33 71 178

Research Team

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

Ioannis Gkionis: Research Economist
igkionis@eurobank.gr + 30 210 33 71 225

Stylianos Gogos: Economic Analyst
sgogos@eurobank.gr + 30 210 33 71 226

Olga Kosma: Economic Analyst
okosma@eurobank.gr + 30 210 33 71 227

Arkadia Konstantopoulou: Research Assistant
arkonstantopoulou@eurobank.gr + 30 210 33 71 224

Paraskevi Petropoulou: Economic Analyst
ppetropoulou@eurobank.gr, + 30 210 37 18 991

Galatia Phoka: Research Economist
gphoka@eurobank.gr, + 30 210 37 18 922

Theodoros Stamatiou: Senior Economist
tstamatiou@eurobank.gr, + 30 210 33 71 228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens,
tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

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