



Eurobank Monthly Global Economic Monitor

July/August 2015

Olga Kosma, Economic Analyst

Paraskevi Petropoulou, Economic Analyst

Contents



Economics

USA

Euro area

Germany

France

Italy

Japan

UK



Eurobank Forecasts Overview

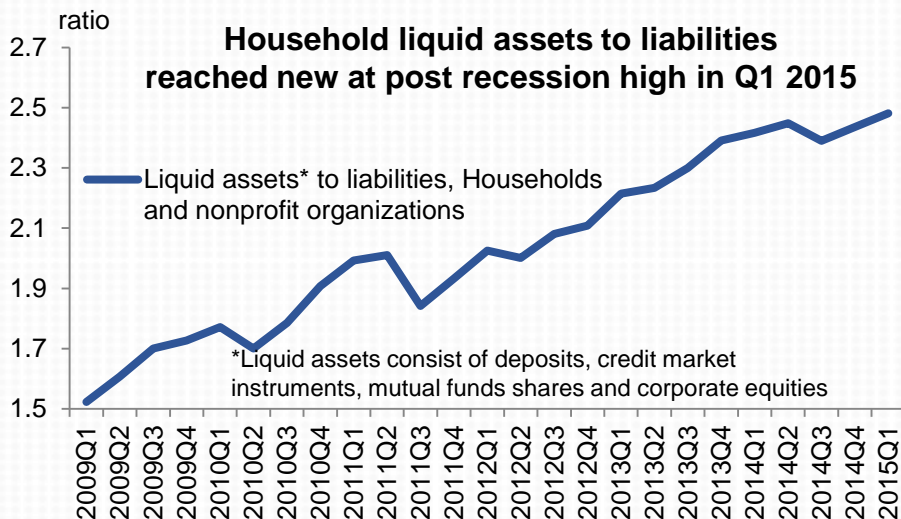
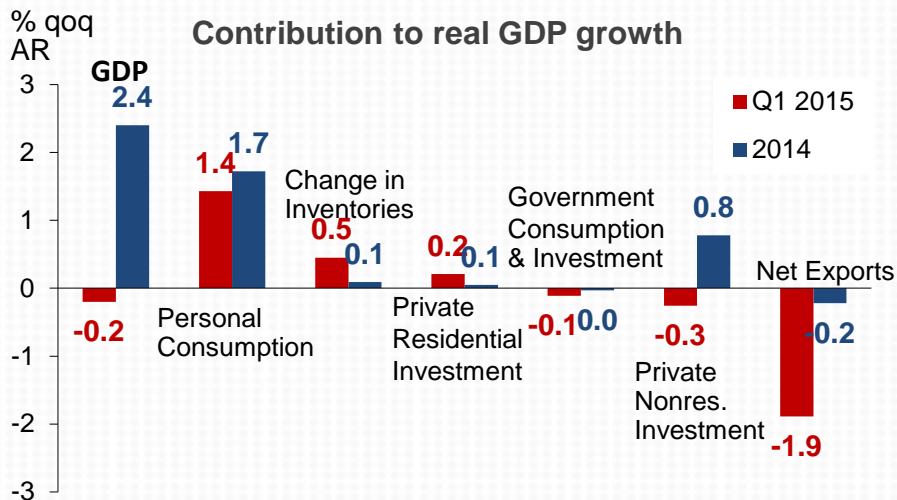


Disclaimer



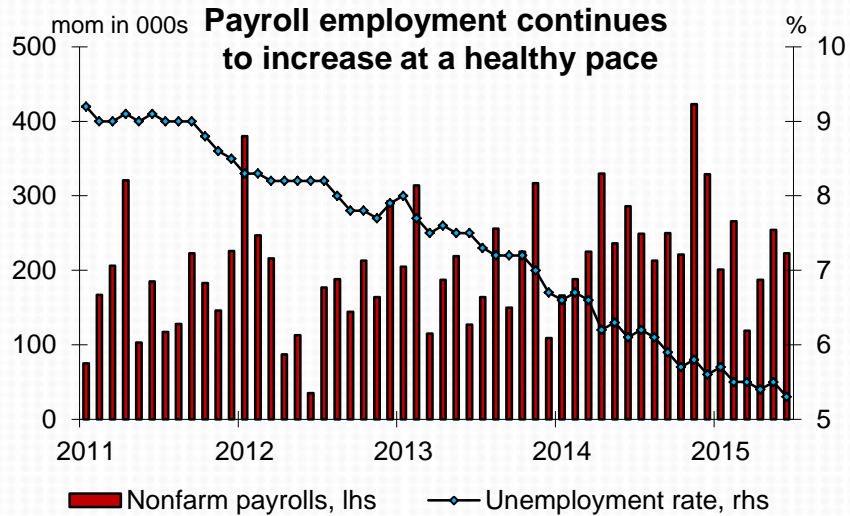
I. Economics

USA: Real economic activity expected to accelerate in the remainder of 2015 amid strengthened household finances

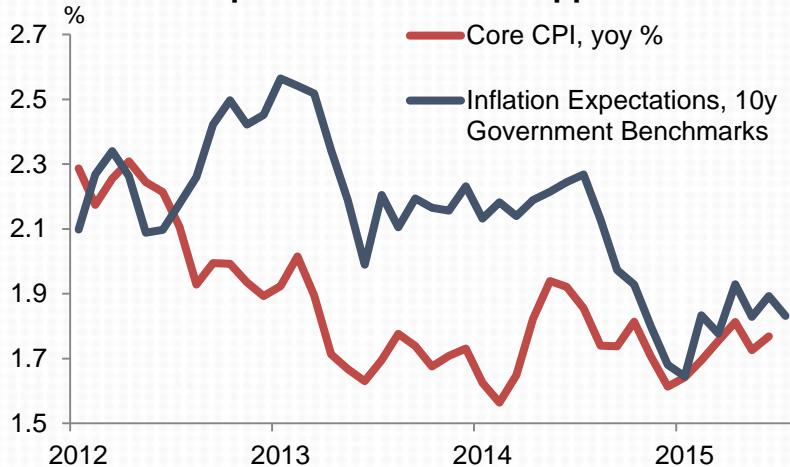


- Q1 real GDP growth was revised higher in the third estimate to -0.2%QoQ saar (2nd estimate: -0.7%QoQ). The significant deceleration in real GDP growth from 2.2%QoQ saar in Q4 2014 was mainly attributed to a sharp drop in external demand. The stronger dollar has probably weighed on exports, in combination with the distortions caused by the West Coast port strikes on foreign demand.
- Real GDP is expected to have gained momentum in Q2. The recent gains in household savings from stronger labor markets and lower energy prices have probably started to translate into stronger consumption growth, with real personal spending increasing in May (0.6%MoM) at its fastest monthly pace since August 2014. Meanwhile, robust homebuilder sentiment and strong housing starts and permits suggest that the housing market recovery is set to continue in the remainder of the year.
- Overall, we have lowered our growth forecast for 2015 to c. 2.4%YoY, from 2.5%YoY previously, due to the weak start to the year. Improved household finances should offset any negative impact from USD appreciation on net trade.

Continued improvement in the US labor market and an expected pickup in wages point to higher fed funds rates by year-end



Core services prices continue to support core CPI

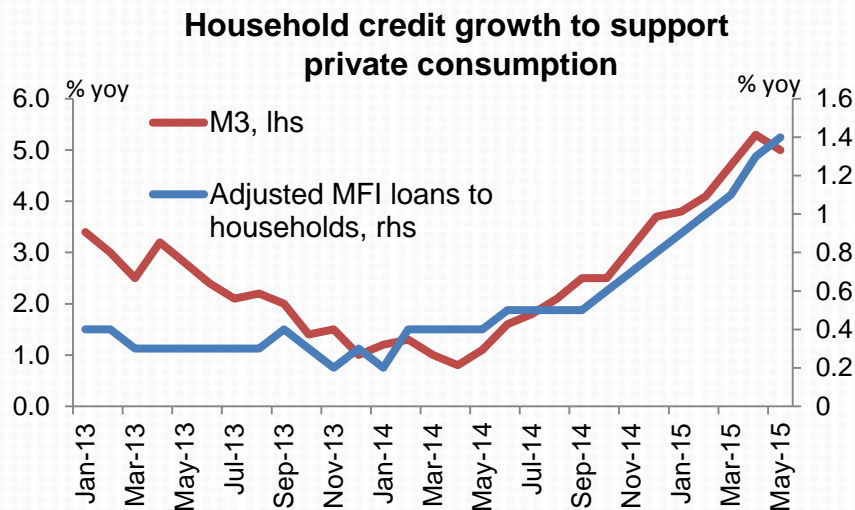
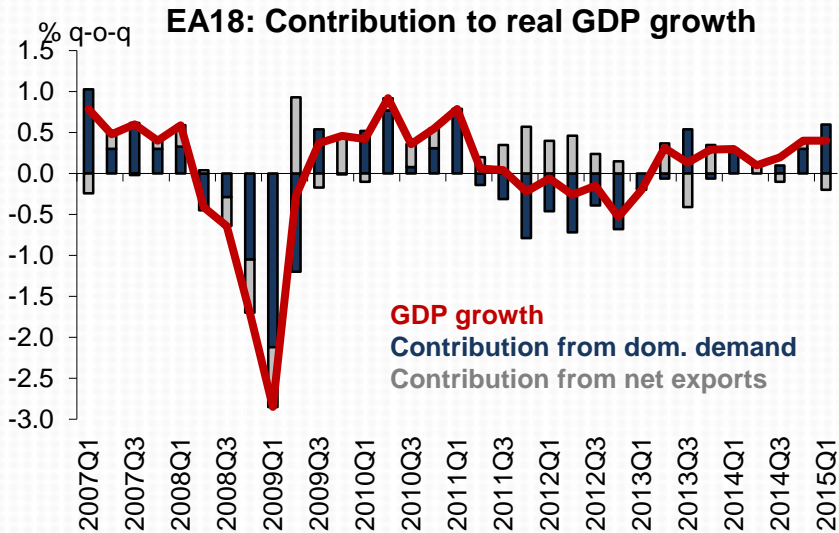


- US non-farm payrolls rose by 223k in June, after a 254k gain in May. Following its most recent peak in Q4 2014 helped by the transitory boost of lower oil prices, nonfarm payroll growth has slowed to a more sustainable trend (3m moving average of 221k in June 2015 from 324k in December 2014). We continue to expect monthly payroll growth to average over 200k in the remainder of 2015, driving the unemployment rate lower towards 4.8%-5.0% by year-end.

- Headline CPI rose by 0.3%MoM in June (0.1%YoY), after a 0.4% monthly increase in May, as the energy-driven disinflationary forces have started to fade. Core CPI inflation accelerated to 0.2%MoM in June (1.8%YoY) from 0.1% in May, with services inflation remaining the main driver. We expect a moderate pick-up in core CPI towards 2.0%YoY by year-end, as core services increases will probably offset any drag from core goods inflation.

- Given the enhanced US growth outlook and the improved labor market dynamics which are expected to increase wage pressure in the coming quarters, we anticipate the Fed's monetary policy normalization process to start at the next meeting in mid-September, at the earliest. The Fed's latest projections for the future path of monetary policy suggest that once rate tightening begins, the pace of rate hikes will likely be more gradual than previously expected.

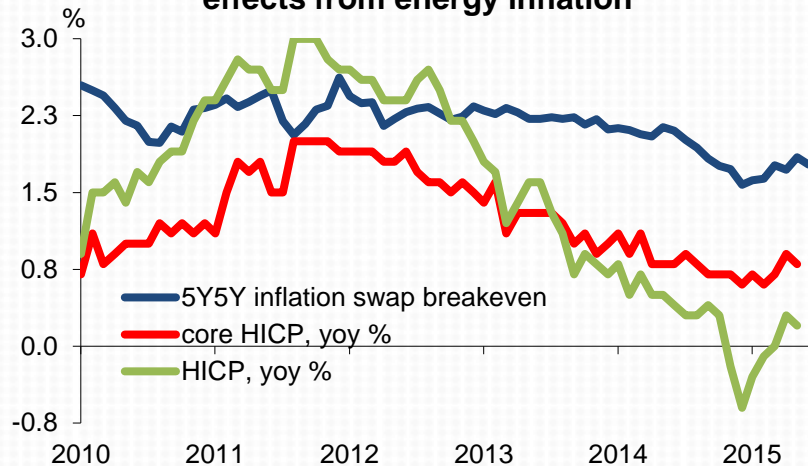
Euro area: modest economic recovery



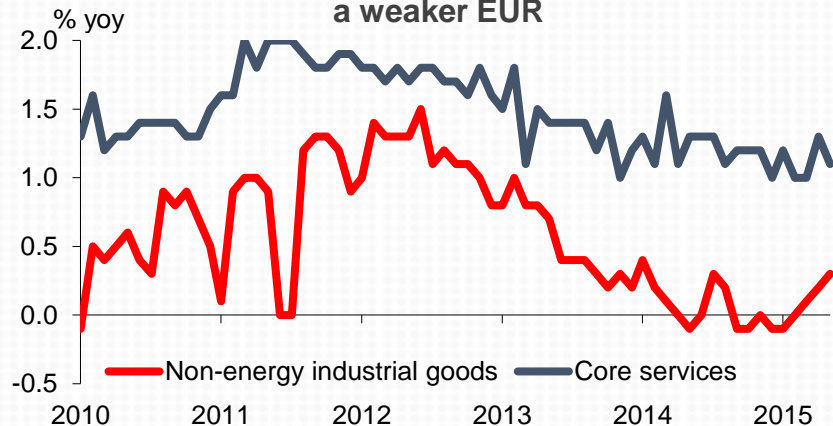
- Real GDP rose by 0.4%QoQ sa in Q1 2015 (as in Q4 2014), with domestic demand being the main pillar of growth. Consumer spending accelerated to 0.5%QoQ from 0.4%QoQ previously, thanks to real disposable income boost from lower oil prices. Additionally, gross fixed investment increased by 0.8%QoQ, its fastest pace since Q1 2011, while government spending grew by the strongest rate since 2009 (0.6%QoQ), reflecting somewhat eased fiscal policies in some euro area countries. Nevertheless, despite the euro depreciation, net trade was a drag on growth due to the slowdown in global demand.
- For the remainder of the year, we expect real GDP growth to stabilize around Q1 levels. The ongoing improvement in new lending to households should continue to support private consumption. Meanwhile, monthly trade data point to some improvement in foreign demand, with exports to the US and Japan retaining a firm tone.
- The recent improvement in business confidence and encouraging macro economic data from France, Italy and Spain, point to an increase in the economic convergence across euro area countries.
- Real GDP growth is projected to strengthen only gradually to c.1.4% in 2015 and 1.7% in 2016 from 0.9% in 2014, suggesting that the euro area economy is still far from reaching levels before the onset of the financial crisis. Increased private debt levels and high unemployment continue to weigh on economic activity.

Euro area inflation has bounced back, but remains well below the ECB's inflation target of below, but close to, 2.0%

Headline HICP to capitalize on positive base effects from energy inflation



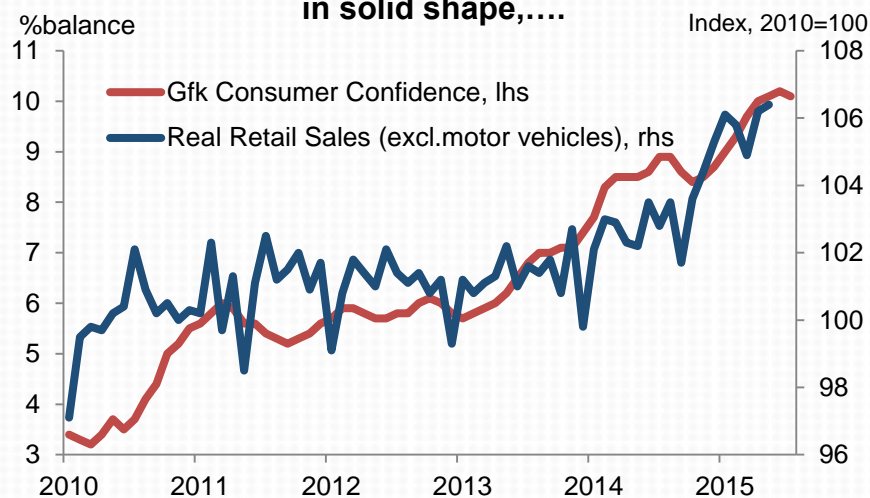
Core goods inflation helped by a weaker EUR



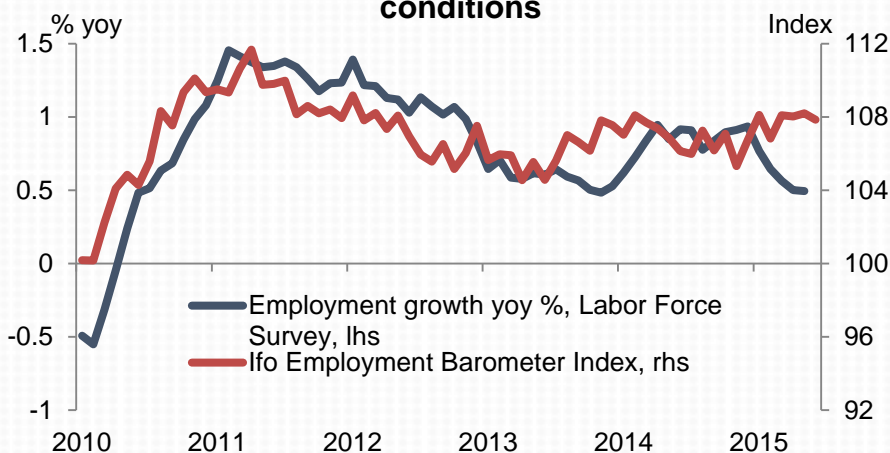
- After bottoming at -0.6%YoY in January, headline harmonized inflation has gradually increased to 0.3%YoY in May before moving modestly lower to 0.2%YoY in June, as both energy and food inflation was relatively weaker. Excluding energy and food prices, core HICP inflation decelerated to 0.8%YoY in June from its recent peak of 0.9%YoY in May, with service price inflation (c. 60% of core inflation) declining to 1.1%YoY -within distance from its historical low of 1.0%YoY reached in April- and non-energy industrial goods inflation (c. 40% of core inflation) increasing to 0.3%YoY from 0.2%YoY, previously.
- Positive base effects from the sharp decline in oil prices last year should drive headline inflation up towards 0.8%YoY by year-end, while core inflation is seen moving broadly sideways in the coming months.
- ECB President Mario Draghi highlighted earlier this month a modest loss of momentum in euro area economic activity due to a weakening global trade and financial market volatility. Nevertheless, lower global demand and market uncertainty did not trigger a change to the ECB's outlook for the euro area economy. We expect the ECB to fully implement its expanded asset purchase program until September 2016, as initially planned, or even longer, given that inflation remains far from its medium-term target of below, but close to, 2%.

Germany: Domestic demand, the major growth driver, will likely be supported by better external demand

Private consumption growth should remain in solid shape,....



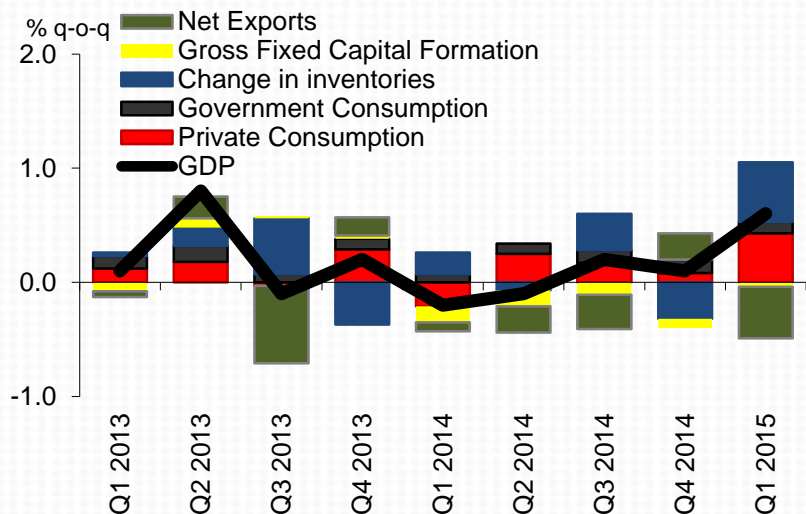
...supported by improving labor market conditions



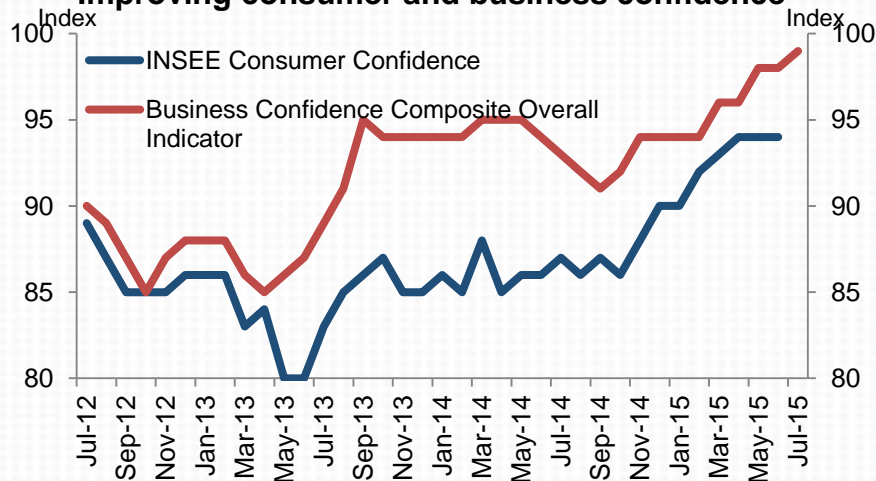
- Germany grew by a lower-than-expected 0.3%QoQ in Q1 2015, following a 0.7%QoQ gain in the previous quarter. Final domestic demand advanced by a robust 0.8%QoQ, on solid consumer and investment activity. On the flip side, export growth slowed further in Q1 for the second consecutive quarter, mirroring a plunge in shipments to certain emerging markets including, inter alia, Russia and China.
- Although the positive impact from the sharp fall in oil prices on household spending will probably fade in the coming months due to the recent stabilization in energy prices, private consumption should continue to perform well on the back of improving labor and housing markets.
- Elsewhere, recent monthly trade and factory order data point to a rebound of export growth in Q2. Indicatively, nominal trade surplus reached a new record high in May. Looking ahead, we expect a better export performance in H2 2015 on the back of enhanced global demand.
- All in all, we expect real GDP growth to trend higher to c. 1.8% in 2015 and 1.9% in 2016, from 1.6% in 2014.

France: Solid domestic demand on robust personal consumption and a recovery in business investment

Contributions to quarterly GDP growth

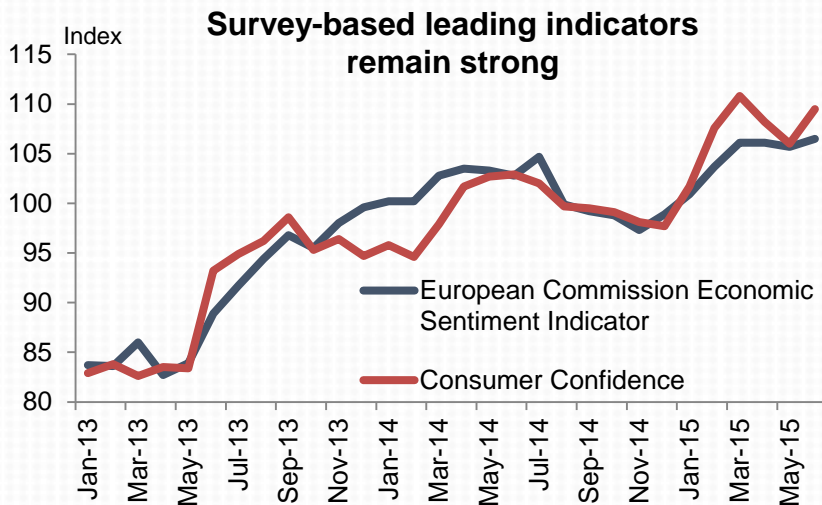
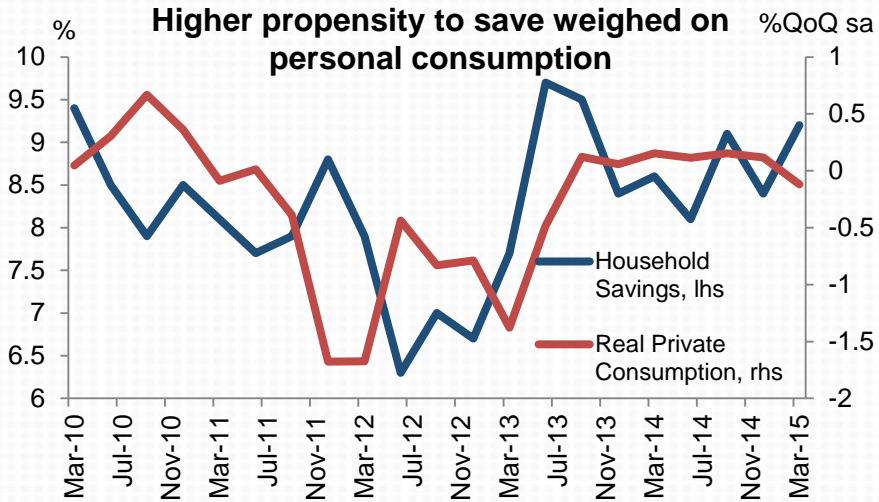


Improving consumer and business confidence



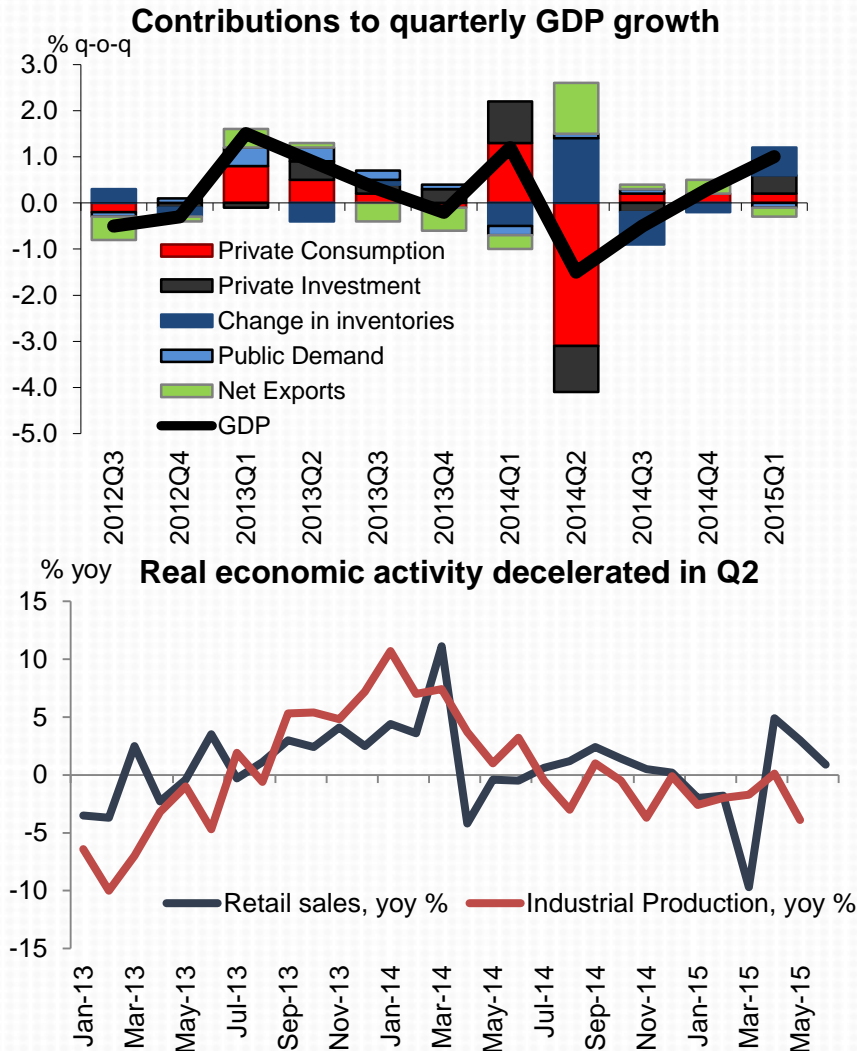
- France's real GDP growth surprised on the upside in Q1 2015, accelerating to 0.6%QoQ from 0.1%QoQ in Q4 2014. Consumer spending improved sharply mainly due to a rebound in energy goods consumption, contributing almost half of the 0.8%QoQ rise in private consumption.
- The recent softening in industrial production over the last couple of months points to a negative carryover in Q2, with the energy production component registering strong monthly declines since March.
- Nevertheless, personal consumption should continue to be supported by income tax cuts for low income earners -to be implemented from September 2015- offsetting the waning effect of the oil price decline on household income.
- Meanwhile, the housing market should be gradually enhanced by the residential tax credit effective from October 2014 and the extension of the zero-interest rate mortgages from new to existing homes since the beginning of the year. In addition, June INSEE business confidence, which edged to its highest level in four years, bodes well for an upward trend in business investment.
- Real GDP growth is projected at c. 1.2%YoY in 2015, from 0.2%YoY in 2014, with private consumption remaining the key driver of growth.

Italy: Gradual economic recovery remains on track



- Italy's GDP returned to growth in Q1 2015, registering the highest growth rate in three years. Despite lower oil prices and the extension of the €80 monthly tax cut for low salary ranges through 2015, personal consumption declined by 0.1%QoQ on high unemployment and an increase in personal savings. The key growth driver was private investment, largely due to a surge in transport equipment.
- Recent consumer and business confidence indicators are consistent with positive rates of economic growth around Q1 levels. Low inflation and improving labor market and credit conditions should give a boost to personal consumption. Meanwhile, net trade should benefit from stronger global growth.
- Our latest economic forecasts envision a real GDP growth of 0.6%YoY in 2015, after three recessionary years, with private consumption and exports favoring the outlook of the domestic economy. Tailwinds from low interest rates and strengthening global demand should help the Italian economy to maintain positive rates of growth in the upcoming quarters of this year.

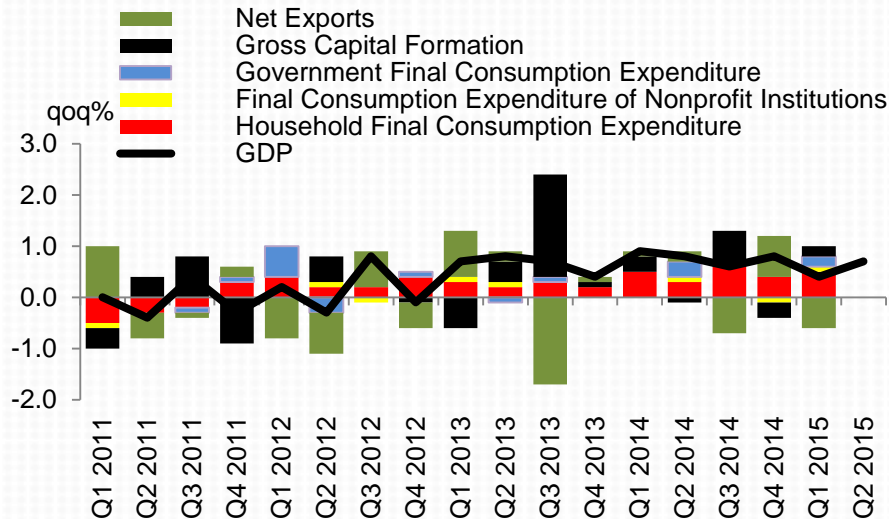
Japan: A modest economic recovery is under way, on stronger personal consumption and higher external demand



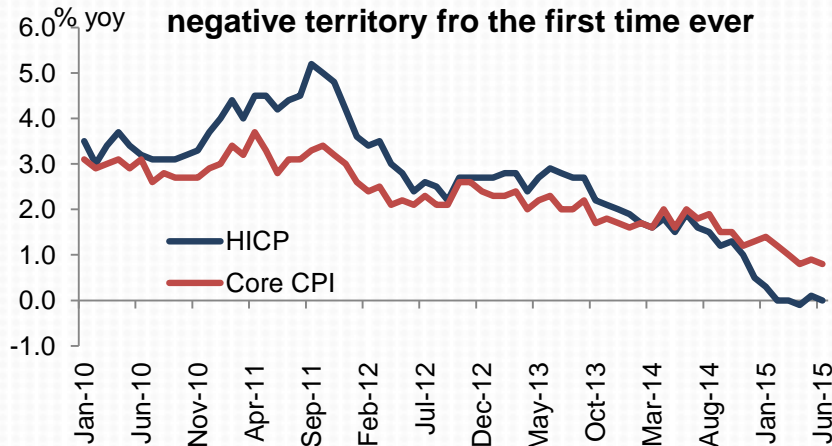
- Q1 real GDP growth was revised higher to 3.9%QoQ saar from 2.4%QoQ in the initial estimate, mainly due to upward adjustments in private inventory and capital investment.
- Real economic activity has probably slowed in Q2 partly due to a negative payback from high private inventory investment in Q1. Meanwhile, May industrial production fall, along with disappointing June retail sales and trade data, suggest downside risks to Q2 GDP.
- Nevertheless, we expect real GDP growth to rebound in Q3, buoyed by stronger export growth on a faster-growing US economy. A weaker JPY and strengthening private consumption growth amid higher real wages are also expected to boost economic growth.
- Despite continued fiscal consolidation, real GDP is expected to expand by 0.9%YoY in 2015 from -0.1%YoY in 2014, underpinned by the BoJ's quantitative and qualitative monetary easing readjusted in October 2014.
- The nationwide CPI ex-perishables dropped back to 0.1%YoY in May, from 0.3%YoY in April, as the VAT-related inflation has no longer effect on the annual inflation rate of growth. Further monetary policy stimulus cannot be ruled out, as the BoJ's inflation target of 2.0% "around H1 FY 16" may be missed.

UK economic growth expected to expand further in coming quarters; inflation to remain subdued

Contributions to quarterly GDP growth



Annual growth in UK April CPI inflation in negative territory for the first time ever



- According to the preliminary estimate, Q2 GDP growth rebounded to 0.7%QoQ from 0.4%QoQ in the prior quarter, mainly supported by the service sector -the main engine of domestic economic activity- and industrial production.
- UK economic growth is expected to expand further in the coming quarters boosted by domestic demand, and particularly household consumption on the back of low interest rates, improved consumer confidence, rising house prices and higher real wages. For FY-2015, market consensus is for a GDP growth rate of c. 2.5% from 2.9% last year, in line with the BoE's projection envisaged in the latest quarterly Inflation Report.
- Headline CPI slowed to 0.0%YoY in June from +0.1%YoY in May, after falling into negative territory in April (-0.1%YoY) for the first time on records. Worryingly, core CPI dropped to a 14-year low of 0.8%YoY in June, posing downside risks to those expecting a BoE rate hike before the end of this year.
- Headline CPI is seen remaining low in the following months, but it is expected to pick up towards the end of the year once the base effects from lower energy and foods prices start fading.

Source: Eurobank Economic Analysis and Financial Markets Research, Bloomberg



II. 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	3.3	3.8	3.6	3.3	3.3						
USA	2.4	2.4	2.9	1.6	0.3	2.0	-2.6	-2.5	-2.7	-4.9	-4.2	-3.8
Europe												
Eurozone	0.9	1.4	1.7	0.4	0.2	1.3	3.0	3.5	3.4	-2.4	-2.0	-1.7
Belgium	1.0	1.1	1.4	0.5	0.3	1.3	0.4	2.1	2.2	-3.2	-2.6	-2.4
Cyprus	-2.3	0.4	1.4	-0.3	-0.8	0.9	-1.9	-3.9	-4.2	-4.9	-0.2	-1.5
France	0.4	1.1	1.7	0.6	0.0	1.0	-1.7	-0.9	-1.2	-4.0	-3.8	-3.5
Germany	1.6	1.9	2.0	0.8	0.3	1.8	7.6	7.9	7.7	0.7	0.6	0.5
Greece	0.8	-2.1	-1.0	-1.4	-1.6	-1.3	0.9	0.8	0.9	-3.5	-3.2	-3.0
Ireland	4.8	3.6	3.5	0.3	0.4	1.5	6.2	5.7	5.3	-4.1	-2.8	-2.9
Italy	-0.4	0.6	1.4	0.2	0.2	1.8	2.0	2.2	2.2	-3.0	-2.6	-2.0
Netherlands	0.9	1.6	1.7	0.3	0.2	1.3	9.9	9.0	9.4	-2.3	-1.7	-1.2
Portugal	0.9	1.6	1.8	-0.2	0.2	1.3	0.5	1.2	1.4	-4.5	-3.1	-2.8
Spain	1.4	2.8	2.6	-0.2	-0.6	1.1	0.6	1.2	1.0	-5.8	-4.5	-3.5
Sweden	2.1	2.5	2.8	0.2	0.7	1.6	5.8	5.8	5.6	-1.9	-1.5	-1.0
Switzerland	2.0	0.6	1.2	0.0	-1.0	-0.2	7.0	7.0	7.0	0.2	0.0	-0.1
UK	2.8	2.6	2.4	1.5	0.4	1.6	-5.5	-4.9	-4.1	-5.7	-4.5	-3.1

Source: Eurobank Economic Analysis and Financial Markets 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	0.0	0.9	1.4	2.7	0.7	1.0	0.6	1.4	1.7	-7.8	-7.1	-6.5
Australia	2.7	2.4	2.9	2.5	2.0	2.5	-2.8	-3.0	-2.6	-2.2	-2.7	-2.3
Emerging Economies												
BRIC												
Brazil	0.2	-1.5	0.8	6.3	8.6	6.0	-4.5	-4.2	-4.0	-4.0	-6.0	-4.9
China	7.4	7.0	6.7	2.0	1.5	2.0	2.3	2.5	2.4	-1.8	-2.3	-2.5
India	7.3	7.5	7.5	6.4	6.1	5.4	-1.4	-1.1	-1.5	-7.1	-6.0	-3.9
Russia	0.6	-3.5	0.5	7.8	12.5	8.0	3.4	4.4	4.0	-0.7	-2.9	-2.1
CESEE												
Bulgaria	1.7	1.8	2.2	-1.4	-0.5	0.6	0.9	0.2	-0.8	-3.8	-2.8	-2.5
Romania	2.9	2.7	2.9	1.1	0.1	2.4	-0.4	-0.5	-1.5	-1.9	-1.9	-2.2
Serbia	-1.8	0.0	1.5	2.1	2.2	3.8	-6.0	-4.3	-4.1	-6.6	-5.3	-4.6

Source: Eurobank Economic Analysis and Financial Markets Research, IMF, EU Commission, Bloomberg

Eurobank Fixed Income Forecasts

	2015			2016	
	Current (July 29, 2015)	September	December	March	June
USA					
Fed Funds Rate (%)	0.14	0.18	0.32	0.46	0.63
1 m Libor (%)	0.19	0.25	0.38	0.53	0.76
3m Libor (%)	0.30	0.40	0.56	0.75	0.92
2yr Notes (%)	0.69	0.77	0.95	1.10	1.35
10 yr Bonds (%)	2.27	2.30	2.38	2.45	2.52
Eurozone					
Refi Rate (%)	0.05	0.05	0.05	0.05	0.05
3m Euribor (%)	-0.02	-0.02	-0.02	-0.01	0.00
2yr Bunds (%)	-0.23	-0.21	-0.20	-0.18	-0.16
10yr Bunds (%)	0.72	0.75	0.77	0.80	0.87
UK					
Repo Rate (%)	0.50	0.50	0.50	0.75	0.75
3m (%)	0.58	0.67	0.73	0.88	1.02
10-yr Gilt (%)	1.96	2.00	2.05	2.09	2.18
Switzerland					
3m Libor Target (%)	-0.74	-0.78	-0.81	-0.81	-0.80
10-yr Bond (%)	-0.03	0.00	0.03	0.05	0.11

Eurobank FX Forecasts

	Current (July 29, 2015)	June (end)	2015 September	December	2016 March	June
EUR-USD	1.1060	1.12	1.14	1.15	1.18	1.20
USD-JPY	123.70	124.00	124.00	123.00	122.00	120.00
EUR-JPY	136.80	138.88	141.36	141.45	143.96	144.00
GBP-USD	1.5640	1.57	1.58	1.60	1.60	1.60
EUR-GBP	0.7070	0.71	0.72	0.72	0.74	0.75
USD-CHF	0.962	0.96	0.95	0.97	0.98	0.98
EUR-CHF	1.0630	1.07	1.08	1.12	1.16	1.18
USD-CAD	1.294	1.30	1.30	1.30	1.27	1.25
USD-AUD	0.7300	0.74	0.75	0.76	0.78	0.80
USD-NZD	0.6670	0.66	0.65	0.65	0.67	0.70
EUR-SEK	9.4700	9.40	9.40	9.35	9.30	9.20
EUR-NOK	9.0000	9.00	9.00	9.10	9.10	9.10

Eurobank Economic Analysis and Financial Markets Research

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

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

Subscribe electronically at
<http://www.eurobank.gr/research>
 Follow us on twitter:
<http://twitter.com/Eurobank>



Global Markets Sales

Nikos Laios: Head of Treasury Sales
nlaios@eurobank.gr, + 30 210 37 18 910

Alexandra Papathanasiou: Head of Institutional Sales
apapathanasiou@eurobank.gr, +30 210 37 18 996

John Seimenis: Head of Corporate Sales
yseimenis@eurobank.gr, +30 210 37 18 909

Achilleas Stogioglou: Head of Private Banking Sales
astogioglou@eurobank.gr, +30 210 37 18 904

George Petrogiannis: Head of Shipping Sales
gpetrogiannis@eurobank.gr, +30 210 37 18 915

Vassilis Gioulbaxiotis: Head Global Markets International
vgioulbaxiotis@eurobank.gr, +30 210 3718995

Stefanos Togoussidis: Head of Retail Sales
stogoussidis@eurobank.gr, +30 210 3718917

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

Eurobank Economic Analysis and Financial Markets Research

More research editions available at <http://www.eurobank.gr/research>

- Daily Overview of Global markets & the SEE Region: Daily overview of key macro & market developments in Greece, regional economies & global markets
- Greece Macro Monitor: Periodic publication on the latest economic & market developments in Greece
- Regional Economics & Market Strategy Monthly: Monthly edition on economic & market developments in the region
- Global Economy & Markets Monthly: Monthly review of the international economy and financial markets



III. Disclaimer

Disclaimer

This document has been issued by Eurobank Ergasias S.A. (Eurobank) and may not be reproduced in any manner. The information provided has been obtained from sources believed to be reliable but has not been verified by Eurobank and the opinions expressed are exclusively of their author. This information does not constitute an investment advice or any other advice or an offer to buy or sell or a solicitation of an offer to buy or sell or an offer or a solicitation to execute transactions on the financial instruments mentioned.. The investments discussed may be unsuitable for investors, depending on their specific investment objectives, their needs, their investment experience and financial position. No representation or warranty (express or implied) is made as to the accuracy, completeness, correctness, timeliness or fairness of the information or opinions, all of which are subject to change without notice. No responsibility or liability, whatsoever or howsoever arising, is accepted in relation to the contents thereof by Eurobank or any of its directors, officers and employees.