



DAILY OVERVIEW

OF GLOBAL MARKETS & THE SEE REGION

Wednesday 01 August 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- July 31:
 - PCE (Jun)
 - Employment Cost Index (Q2)
- Aug 1:
 - ISM Manufacturing (Jul)
 - ADP Employment (Jul)
 - FOMC Rate Decision
- Aug 3:
 - Nonfarm Payrolls (Jul)
 - Unemployment Rate (Jul)
 - Average Hourly Earnings (Jul)

EUROZONE

- July 30: Economic Sentiment Indicator (Jul)
- July 31:
 - HICP (Jul)
 - Unemployment Rate (Jun)
 - Q2 GDP, flash estimate
- Aug 1:
 - PMI Manufacturing (Jul, f)
- Aug 3:
 - PMI Services (Jul, f)
 - PMI Composite (Jul, f)

GREECE

- Jul 30: PPI (Jun)
- Jul 31: Retail Sales (May)
- Aug 1: PMI manufacturing (Jul)

SEE

BULGARIA

- July 30: PPI Index (Jun)
- July 31:
 - Budget Balance (Jun)
 - Base Interest Rate (Aug)

CYPRUS

- Aug 2: CPI (Jul)

ROMANIA

- July 31: Unemployment (Jun)
- August 1: FX Reserves (Jul)
- August 2: PPI Index (Jun)
- August 3: Retail Sales (Jun)

SERBIA

- July 31:
 - Industrial Output (Jun)
 - GDP (Q2-2018, flash estimate)
 - Trade Balance (Jun)
 - Retail Sales (Jun)

Source: Reuters, Bloomberg,
Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Wall Street firmed overnight breaking a three-day losing streak amid a rebound in technology stocks and news reports for a possible resumption of trade talks between the US and China. On the trade front, the US administration is reportedly considering a plan to raise the 10% tariff on \$200bn of imported Chinese goods to 25%. In response, the US dollar added 0.6% against the yuan to 6.8462, within distance from a one-year high of 6.8569 hit last Friday. Turning to the government bond market, the Japanese 10-yr bond yield hit an 1^{3/2} month high of 0.132% marking its biggest one-day rise in about two years, following the BoJ's commitment to allow more flexibility in the 10-yr Japanese government bond (JGB) yield. The uptrend in JGBs yields pushed core euro zone sovereign bond yields higher, with the 10-yr Bund yield surging to an 1^{1/2} month high of 0.47% in European trade at the time of writing. Investors' focus should centre on the FOMC meeting outcome this evening, although no change in policy is anticipated, with the market almost fully priced for two 25bp rate hikes in September and December. On the macro data front, the final July manuf PMIs in the Euro area are due later in the day, while, in the US, the July ADP empl change and the July ISM manuf should be also worth watching.

GREECE: The IMF in its Article IV Consultation on Greece, called for the continuation of the reform effort in all frons in order to boost productivity and urged towards the avoidance of backtracking on agreed reforms and already pre-legislated fiscal measures. The IMF recognized the sustainability of gross public debt in the medium term but expressed serious doubts over its long term sustainability.

SOUTH EASTERN EUROPE

CYPRUS: Confidence improved in July, rebounding back from multi-month lows recorded in June.

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Latest world economic & market developments

GLOBAL MARKETS

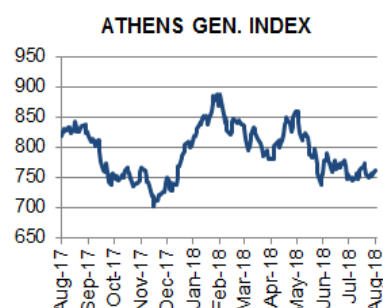
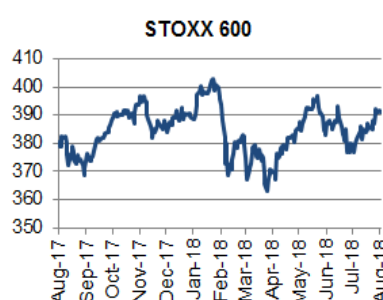
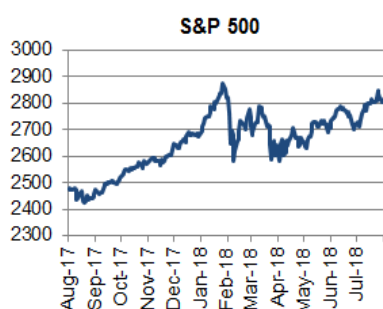
Wall Street firmed overnight breaking a three-day losing streak amid a rebound in technology stocks and news reports for a possible resumption of trade talks between the US and China. Asian equity shares followed suit in early trade but gave up ground later in the day on weak macro data and fears of further escalation of US/China trade disputes. In China, the Caixin/Markit PMI index declined to an eight-month low of 50.8 in July from 51.0 in June, dragged down by declining export orders. On the trade front, the US administration is reportedly considering a plan to raise the 10% tariff on \$200bn of imported Chinese goods to 25%. Meanwhile, after the US imposed 25% of tariffs on \$34bn of Chinese goods in early July, the review period for tariffs on another \$16bn of imports will end today, suggesting that another wave of tariffs could possibly kick in. In response, the US dollar added 0.6% against the yuan to 6.8462, within distance from a one-year high of 6.8569 hit last Friday. Turning to the government bond market, the Japanese 10-yr bond yield (JGB) hit an 1^{1/2} month high of 0.132% marking its biggest one-day rise in about two years, following the BoJ's commitment to allow more flexibility in the 10-yr JGB yield. In more detail, the BoJ Governor Haruhiko Kuroda cited y-day that the central bank would tolerate moves in the 10-yr JGB yield of 20bps around the 0% target, twice as much as than the previously allowed 10bps. The uptrend in JGBs yields pushed core euro zone sovereign bond yields higher while government bond curves became flatter, with the 10-yr Bund yield surging to an 1^{1/2} month high of 0.47% in European trade. Investors' focus should centre on the FOMC meeting outcome this evening, although no change in policy is anticipated.

okosma@eurobank.gr

GREECE

The IMF published y-day its Article IV Consultation on Greece. According to the IMF, the recovery is projected to strengthen in the near-term as a result of the structural and fiscal reforms from 2010 onwards. Real GDP growth is expected at 2.0% and 2.4% for 2018 and 2019, respectively. From then onwards, real GDP growth follows a decreasing pattern and stabilizes to 1.2% in 2022 (MTFS 2019-22 real GDP growth forecast for 2022 at 1.8%). Unemployment is expected to decline, from 19.9% and 18.1% in 2018 and 2019 respectively to 14.4% in 2022 (MTFS 2019-22 unemployment forecast for 2022 at 13.1%). The IMF highlights, a number of domestic and external risks including: a) slower trading partner growth, b) tighter global financial conditions, c) regional instability, d) the domestic political calendar, e) risks of reform fatigue and f) the pressure on potential growth from the population aging in the long term. On fiscal policy, the IMF acknowledged the need for a shift to a more growth-friendly and inclusive fiscal policy mix, but with no shortfalls from the pre-legislated fiscal package for 2019 and 2020. On structural reforms, the IMF mentioned that Greece still lags behind its competitors both in terms of competitiveness and in the liberalization of the "so-called closed" professions and called urged for a new structural measures aiming to improve the business environment, foster competition in product markets and preserve labor market flexibility—through a prudent encouraged banks to step up use of the strengthened financial sector legislative and regulatory frameworks that have created a better environment for NPEs. On the gross public debt, the IMF acknowledged the debt sustainability in the medium term (up to 2038) but expressed serious doubts over the long term debt sustainability mainly as a result of a) the weak institutional environment in Greece and its toll on long term productivity, b) the expected low effort to create a growth friendly fiscal environment in the long term, and c) the pressure from the aging of the population. Finally, the IMF warned that the absence of credible long term debt relief measures in the recent agreement might create problems to the market access of the country in the long run.

tstamatiou@eurobank.gr



Source: Reuters, Bloomberg, Eurobank Research

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BULGARIA: Indicators	2016	2017e	2018f
Real GDP growth %	3.9	3.8	3.8
CPI (pa, yoy %)	-0.8	2.1	2.4
Budget Balance/GDP*	1.6	0.8	-1.0
Current Account/GDP	5.4	5.0	4.5
EUR/BGN (eop)	1.9558		
	2016	current	2017
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

CYPRUS: Indicators	2016	2017e	2018f
Real GDP growth %	3.0	3.8	3.6
HICP (pa, yoy %)	-1.2	0.7	1.0
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.4	-6.2

* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

ROMANIA: Indicator:	2016	2017e	2018f
Real GDP growth %	4.8	7.0	4.0
CPI (pa, yoy %)	-1.6	1.3	3.5
Budget Balance/GDP *	-2.4	-3.0	-4.4
Current Account/GDP	-2.2	-3.5	-4.0
EUR/RON (eop)	4.54	4.67	4.70
	2017	current	2018
Policy Rate (eop)	1.75	2.50	3.00

* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

SERBIA: Indicators	2016	2017e	2018f
Real GDP growth %	2.7	1.9	3.5
CPI (pa, yoy %)	1.1	3.2	3.0
Budget Balance/GDP	-1.3	0.5	-0.6
Current Account/GDP	-3.1	-5.7	-4.7
EUR/RSD (eop)	123.40	118.2	116.5
	2017	current	2018
Policy Rate (eop)	3.50	3.00	3.00

Source: Reuters, Bloomberg, Eurobank Research,
National Authorities

Credit Ratings			
L-T ccy	Moody's	S&P	Fitch
SERBIA	Ba3	BB	BB
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BBB-	BBB
CYPRUS	Ba3	BB+	BB+

Latest economic & market developments in the CESEE region

CYPRUS

Having slumped in June, the Economic Sentiment Index (ESI) improved in July. In more detail, ESI increased by 1.4 points to 109.2 in July, down from 107.8 in June vs 113.6 in May, compared to 116.6 in April, retrenching back to the levels recorded in August 2017. The more pronounced deterioration in expectations came from consumer sentiment which dipped by 8 points. We suspect that this dip recorded in the months of June and July can most probably be attributed to the uncertainty with respect to the resolution of the Cyprus Co-operative Bank (CCB), the second largest bank at that time, which had a negative impact on depositors' sentiment. On the other hand, all other components more or less improved. The services, industry and construction components increased by 8.8, 3.7 and 3.7 points respectively. Retail trade showed a minor deterioration by 1.1 points in the same month.

Despite the decline, the ESI index still stands at a relatively high level. The ESI index had reached a new pre-Lehman Brothers period peak in January-February 2018 at 117.8 (the previous pre-Lehman period peak stood at 117.3, which was recorded in August 2007). The over ESI Index performance obviously doesn't bode well for the GDP growth reading of Q2. Yet, we remain cautious in interpreting the ESI reading as a leading indicator of a more pronounced slowdown for the short-term economic activity prospects given that in August 2017 we had witnessed a decline of similar size. Summing up, the ESI Index stands above its long-term average. The improvement recorded in the past four years – a total of 41.4 points since the crisis period in April 2013 - is still the highest among all countries in EU-28 over the same sample period.

igkionis@eurobank.gr

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GLOBAL MARKETS

Stock markets				FOREX			Government Bonds				Commodities				
	Last	ΔD	ΔYTD		Last	ΔD	ΔYTD	(yields)	Last	ΔDbps	ΔYTD bps		Last	ΔD	ΔYTD
S&P 500	2816.29	0.5%	5.3%	EUR/USD	1.1683	-0.1%	-2.7%	UST - 10yr	2.98	2	57	GOLD	1223	-0.1%	-6.1%
Nikkei 225	22746.70	0.9%	-0.1%	GBP/USD	1.3115	-0.1%	-3.0%	Bund-10yr	0.47	3	4	BRENT CRUDE	74	-0.7%	10.2%
STOXX 600	390.89	-0.2%	0.4%	USD/JPY	112.02	-0.1%	0.6%	JGB - 10yr	0.13	7	8	LME X	3044	0.6%	-11.0%

SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.28	-2	-24
1-week	2.41	0	-20
1-month	2.61	0	-24
3-month	2.89	1	-23
6-month	3.06	0	-18

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.44	-4	-83
5Y RSD	3.89	-2	-35
7Y RSD	4.33	#N/A N/A	-85

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.59	0	60
USD Nov-24	#N/A N/A	#N/A N/A	-

CDS

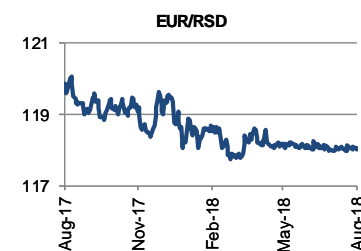
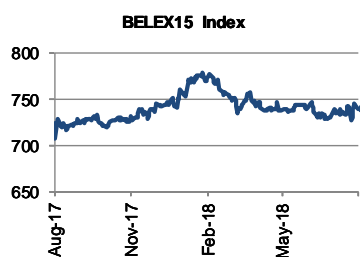
	Last	ΔDbps	ΔYTD bps
5-year	110	5	-8
10-year	152	-2	-10

STOCKS

	Last	ΔD	ΔYTD
BELEX15	738.0	-0.14%	-2.88%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.02	0.01%	0.76%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	3.61	1	252
1-month	3.51	0	164
3-month	3.47	0	142
6-month	3.52	0	125
12-month	3.63	1	131

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.25	0	87
5Y RON	4.72	0	94
10Y RON	4.88	0	56

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.58	0	3
USD Jan-24	4.02	1	102

CDS

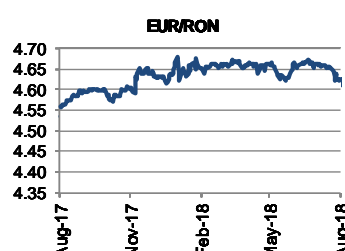
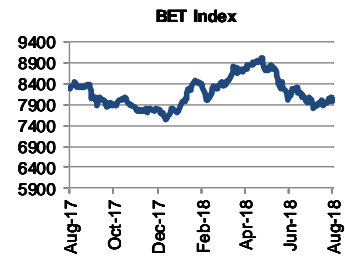
	Last	ΔDbps	ΔYTD bps
5-year	97	4	7
10-year	140	3	6

STOCKS

	Last	ΔD	ΔYTD
BET	7993.8	0.20%	3.10%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6258	-0.06%	0.84%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.30	0	-5
3-month	-0.23	0	-5
6-month	-0.12	0	-7
12-month	0.22	1	-10

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.11	-3	-5
5Y BGN	0.10	0	-4
10Y BGN	0.86	0	-10

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.00	-1	7
EUR Sep-24	0.42	-1	-16

CDS

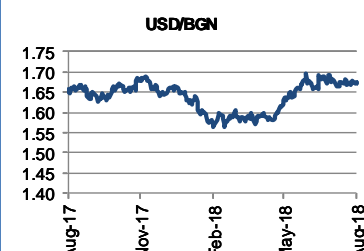
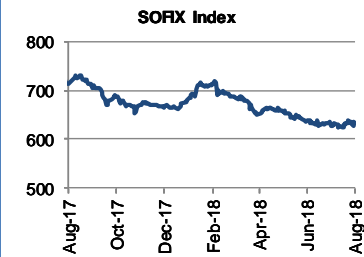
	Last	ΔDbps	ΔYTD bps
5-year	75	2	-21
10-year	120	0	-21

STOCKS

	Last	ΔD	ΔYTD
SOFIX	633.9	-0.02%	-6.43%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.6741	-0.07%	-2.67%



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

Data updated as of 12:00 EEST

Contributors

Paraskevi Petropoulou
Senior Economist, Eurobank Ergasias
+30 210 3718991
ppetropoulou@eurobank.gr

Ioannis Gkionis
Senior Economist, Eurobank Ergasias
+30 210 3337305
igkionis@eurobank.gr

Anna Dimitriadou
Economic Analyst, Eurobank Ergasias
+30 210 3718793
andimitriadou@eurobank.gr

Olga Kosma (Special Contributor)
Research Economist, Eurobank Ergasias
+30 210 3371227
okosma@eurobank.gr

Stelios Gogos (Special Contributor)
Economic Analyst, Eurobank Ergasias
+30 210 3371226
sgogos@eurobank.gr

Theodoros Stamatou (Special Contributor)
Senior Economist, Eurobank Ergasias
+30 210 3371228
tstamatou@eurobank.gr

Eurobank Economic Analysis and Financial Markets Research

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

Research Team

Anna Dimitriadou: Economic Analyst
andimitriadou@eurobank.gr, +30 210 3718 793

Marisa Yiannisis: Administrator
magiannisi@eurobank.gr +210 3371242

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

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

Olga Kosma: Research Economist
okosma@eurobank.gr +30 210 33 71 227

Paraskevi Petropoulou: Senior Economist
ppetropoulou@eurobank.gr, +30 210 37 18 991

Dr. Theodoros Stamatou: Senior Economist
tstamatou@eurobank.gr, +30 210 3371228

Elia Tsiampaou: Economic Analyst
etsiampaou@eurobank.gr, +30 210 3371207

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

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