

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Oct 01:
  - Manufacturing PMI (Sep)
  - Total vehicles sales (Sep)
- Oct 03:
  - Mortgage applications (29/9)
  - ADP Employment change (Sep)
  - Services PMI (Sep F)
- Oct 04:
  - Initial jobless claims (29/09)
  - Factory orders (Aug)
- Oct 05:
  - Trade balance (Aug)
  - Non farm payrolls (Sep)

#### EUROZONE

- Oct 01:
  - Manufacturing PMI (Sep, final)
  - Unemployment rate (Aug)
- Oct 3
  - Services PMI (Sep, final)
  - Retail sales (Aug)

#### GREECE

- Oct 01:
  - Manufacturing PMI (Sep)

#### SEE

##### CYPRUS

- Oct 04: CPI (Sep)

##### ROMANIA

- Oct 01:
  - Unemployment rate (Aug)
  - International reserves (Sep)
- Oct 02:
  - PPI (Aug)
- Oct 03:
  - Retail Sales (Aug)
  - Key policy interest rate announcement

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Market concerns about escalating tensions between the Italian government and the EU are mounting. 10-yr Italian government bond yields rose further in early European trade on Tuesday hitting a 4½ year high of 3.44% while the EUR remained under pressure marking an intraday low of 1.1523 against the USD earlier today, the lowest since 21 August. No major data releases are due for release today with market focus turning to a speech by Fed Chairman Jerome Powell on the outlook for employment and inflation.

**GREECE:** The draft 2019 State Budget that was tabled to Parliament yesterday foresees GDP growth of 2.1% for 2018 and 2.5% for 2019. It also incorporates two scenarios: one with the legislated pension cuts and one without. According to the first – base – scenario the 2019 primary surplus will reach 4.14% of GDP whereas according to the second scenario it will reach 3.56% of GDP. On the economic data front, the IHS Markit Manufacturing PMI came in at 53.6 in September, slightly below the 53.9 in August.

### SOUTH EASTERN EUROPE

**BULGARIA:** Unemployment declined to 5.2% in August down from 6.2% a year ago.

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Tuesday 02 October 2018

## Latest world economic & market developments

### GLOBAL MARKETS

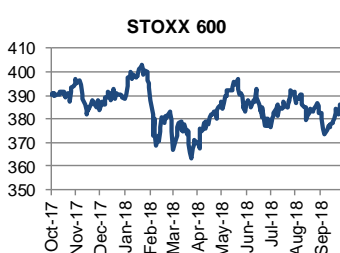
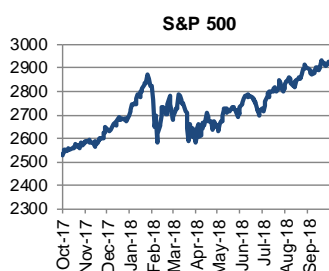
Market concerns about escalating tensions between the Italian government and the EU are mounting. Italy's lower house budget committee Head Claudio Borghi, a well-known Eurosceptic, was quoted as saying that Italy would have solved its fiscal problems if it had its own currency. Along similar lines, Italy's Deputy Prime Minister Luigi Di Maio accused European Union officials of deliberately upsetting financial markets with negative comments about Italy's new budget deficit targets. The above followed European Economic Affairs Commissioner Pierre Moscovici's remarks that Italy's budget plans are "obviously" deviating from both EU fiscal rules and the country's previous commitment and, unless the budget plan is modified, confrontation between the European Commission and the government will likely escalate. 10-yr Italian government bond yields rose further in early European trade on Tuesday hitting a 4½ year high of 3.44% with the spread against its German counterpart widening close to 300bps for the first time since mid-2013. As regards the reaction to other EMU peripheral sovereign bond markets, Spanish and Portuguese government bonds have experienced limited pressure from Italy so far suggesting that investors perceive Italy's problems as largely idiosyncratic. With Italian politics continuing to take center stage, the EUR remained under pressure marking an intraday low of 1.1523 against the USD earlier today, the lowest since 21 August. Yesterday's Eurozone data showing that the final IHS Markit Manufacturing PMI dropped to a two-year low of 53.2 in September, slightly lower from a flash reading of 53.3 and below August's 54.6 mainly on the back of weaker export order growth amid continuing concerns about escalating trade tension, also weighed on the EUR. No major data releases are due for release today with market focus turning to Fed Chairman Jerome Powell who speaks on the outlook for employment and inflation.

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### GREECE

The draft 2019 State Budget that was tabled to Parliament yesterday foresees GDP growth of 2.1% for 2018 and 2.5% for 2019. With regard to the growth components they are estimated as follows: private consumption +1.0% in 2018 and +1.1% in 2019, public consumption +0.2% in 2018 and +0.6% in 2019, gross fixed capital formation +0.8% in 2018 and +1.9% in 2019, exports +7.5% in 2018 and +5.8% in 2019 and imports +3.4% in 2018 and +5.2% in 2019. The 2019 draft budget also incorporates two scenarios: one with the legislated pension cuts and one without. According to the first – base – scenario the 2019 primary surplus will reach 4.14% of GDP whereas according to the second scenario it will reach 3.56% of GDP. By 15 October the Greek government will have to submit the 2019 state budget to the European Commission but final decisions are not expected to be made before the December Eurogroup. It should be noted that Eurogroup President Mario Centeno reportedly commented yesterday after the Eurogroup meeting that the legislated pension cuts are a fiscal measure rather than a structural one, in line with the Greek government's view. On his part, ESM Managing Director Klaus Regling reportedly regarded it as positive that the Greek government had presented two scenarios in its draft budget as discussions on the subject are still ongoing. On the economic data front, the IHS Markit Manufacturing PMI came in at 53.6 in September, slightly below the 53.9 in August. According to the relevant report, production and new order growth is sustained, input price inflation softened to a five-month low while business confidence is at one of its highest levels since July 2012.

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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

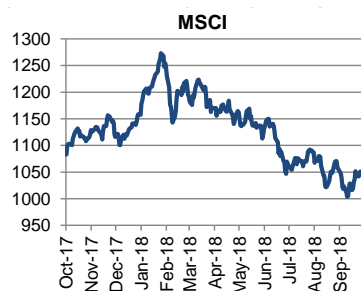
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

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	Ba2	BBB-	BB+

## Latest economic & market developments in the CESEE region

### BULGARIA

Unemployment on a seasonally adjusted basis declined further to 5.2% in August, down from 5.3% in July and 6.2% a year ago. Although the pace of decline has been slowing down in recent months, unemployment has now come down to levels comparable with Q3-2008. At the same time, employment growth has been decelerating in recent quarters illustrating primarily capacity constraints. Having expanded briskly in the past quarters, employment growth slowed down to -0.2% QoQ/+0.2% YoY in Q2-2018 compared to 0.0% QoQ/1.2% YoY in Q1-2018, 0.4% QoQ/2.4% YoY in Q4-2017 and 1% QoQ/2.7% in Q3-2017. The economy is operating at or close to full employment (the relevant % of companies reportedly confronted with labor scarcity in the EU survey has climbed to 42% in Q3-2018 close to the recent high of 45% in Q2-2018 up from only 11% in Q3-2013). The labor market improvement has set the foundations for the robust expansion of private consumption, more visible in 2017 and 2018, that will most probably extend and support GDP growth in 2019 as well. The labor market tightening has led wages to rally – albeit from a very low base – by 4.5% QoQ/+8.2% YoY in Q2.

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Tu GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities													
<table border="1"> <thead> <tr> <th></th> <th>Last</th> <th>ΔD</th> <th>ΔYTD</th> </tr> </thead> <tr> <td>S&amp;P 500</td> <td>2924.59</td> <td>0.4%</td> <td>9.4%</td> </tr> <tr> <td>Nikkei 225</td> <td>24270.62</td> <td>0.1%</td> <td>6.6%</td> </tr> <tr> <td>STOXX 600</td> <td>383.94</td> <td>0.2%</td> <td>-1.3%</td> </tr> </table>		Last	ΔD	ΔYTD	S&P 500	2924.59	0.4%	9.4%	Nikkei 225	24270.62	0.1%	6.6%	STOXX 600	383.94	0.2%	-1.3%
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 |         | Last   | ΔD    | ΔYTD  | |---------|--------|-------|-------| | EUR/USD | 1.1536 | -0.4% | -3.9% | | GBP/USD | 1.3007 | -0.3% | -3.8% | | USD/JPY | 113.76 | 0.1%  | -0.9% | | | (yields)   | Last | ΔDbps | ΔYTD bps | |------------|------|-------|----------| | UST - 10yr | 3.06 | -2    | 66       | | Bund-10yr  | 0.45 | -3    | 2        | | JGB - 10yr | 0.13 | -1    | 8        | | |             | Last | ΔD   | ΔYTD   | |-------------|------|------|--------| | GOLD        | 1194 | 0.4% | -8.4%  | | BRENT CRUDE | 85   | 0.1% | 27.2%  | | LMEX        | 3004 | 0.3% | -12.1% | |

SERBIA

**Money Market**

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.28	-1	-24
1-week	2.38	-1	-23
1-month	2.61	-1	-24
3-month	2.92	0	-20
6-month	3.09	0	-15

**RS Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.21	-1	-107
5Y RSD	3.65	0	-65
7Y RSD	4.15	0	-102

**RS Eurobonds**

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.80	0	80

**CDS**

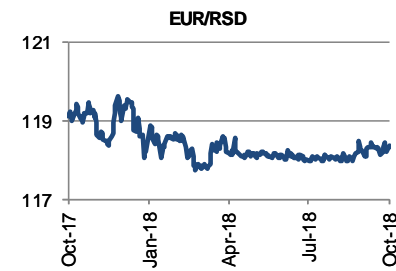
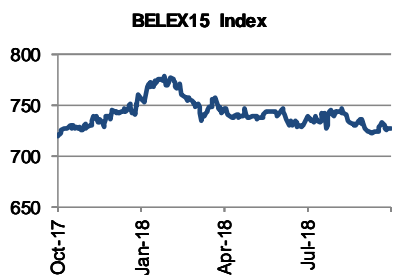
	Last	ΔDbps	ΔYTD bps
5-year	111	0	-7
10-year	159	0	-3

**STOCKS**

	Last	ΔD	ΔYTD
BELEX15	726.9	-0.03%	-4.34%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RSD	118.34	-0.22%	0.48%



ROMANIA

**Money Market**

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.69	0	160
1-month	3.08	0	121
3-month	3.17	0	112
6-month	3.4	0	113
12-month	3.53	0	121

**RO Local Bonds**

	Last	ΔDbps	ΔYTD bps
3Y RON	3.97	0	58
5Y RON	4.32	0	54
10Y RON	4.98	0	67

**RO Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.56	#N/A	N/A
USD Jan-24	4.15	2	115

**CDS**

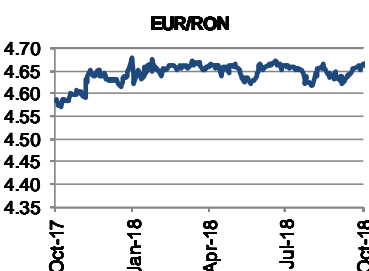
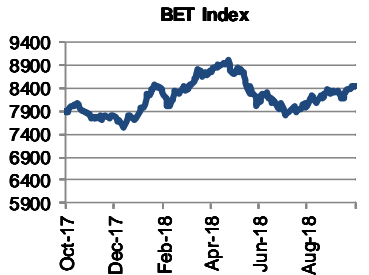
	Last	ΔDbps	ΔYTD bps
5-year	98	0	8
10-year	140	0	6

**STOCKS**

	Last	ΔD	ΔYTD
BET	8441.3	0.34%	8.87%

**FOREX**

	Last	ΔD	ΔYTD
EUR/RON	4.6663	-0.04%	-0.03%



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	-0.04	0	3
5Y BGN	0.09	0	-6
10Y BGN	0.79	0	-17

**BG Eurobonds**

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.03	-1	5
EUR Sep-24	0.46	-1	-12

**CDS**

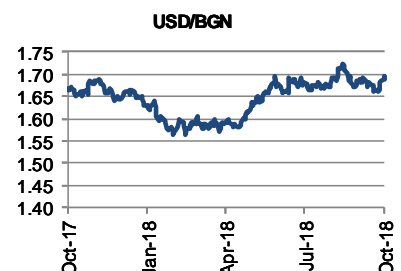
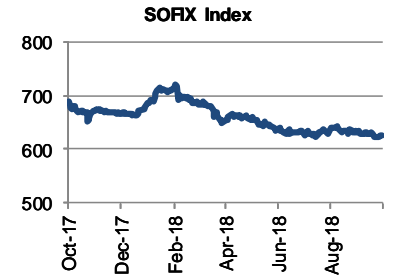
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-18
10-year	125	0	-17

**STOCKS**

	Last	ΔD	ΔYTD
SOFIX	625.7	0.22%	-7.63%

**FOREX**

	Last	ΔD	ΔYTD
USD/BGN	1.6953	-0.35%	-3.89%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research  
Data updated as of 09:30 EEST

Tuesday 02 October 2018

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