

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- Oct 29: Personal income & spending (Sep)
- Oct 30: CB consumer confidence (Oct)
- Oct 31:
  - ADP employment (Oct)
- Nov 01:
  - Initial jobless claim (27/10)
  - PMI manufacturing (Oct, final)
  - Construction spending (Sep)
  - ISM manufacturing (Oct)
- Nov 02:
  - Trade balance (Sep)
  - Non farm payrolls (Oct)
  - Factory orders (Sep)
  - Durable goods orders (Sep)

#### EUROZONE

- Oct 30:
  - GDP (Q3, prel)
  - Consumer confidence (Oct, final)
  - Unemployment rate (Sep)
- Oct 31: CPI (Oct, prel)
- Nov 02: PMI manufacturing (Oct, final)

#### GREECE

- Oct 31: Turnover Index in Retail Trade (Aug)
- Nov 1: PMI manufacturing (Oct)

#### SEE

##### BULGARIA

- Oct 30: PPI (Sep)
- Oct 31:
  - Budget balance (Sep)
  - KPR

##### CYPRUS

- Nov 01: CPI (Oct)

##### ROMANIA

- Oct 31: Unemployment rate (Sep)
- Nov 01: International reserves (Oct)
- Nov 02: PPI (Sep)

##### SERBIA

- Oct 31:
  - Industrial output (Sep)
  - GDP (Q3, Prel)
  - Trade balance (Sep)
  - Retail sales (Sep)

Source: Reuters, Bloomberg, Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** In line with market expectations, late on Friday S&P revised its outlook on Italy to negative from stable and affirmed the rating at BBB, two notches above non-investment grade. Market relief on the back of no ratings downgrade boosted Italy's sovereign bonds. In FX markets, the DXY index retained a positive tone standing close to Friday's multi-week peak in reaction to positive US Q3 GDP data. Today the UK Chancellor will deliver the 2019 Budget while, looking at the remainder of the week, Friday's US non-farm payrolls report for October and the advance Q3 GDP estimate on Tuesday, lure market attention.

**GREECE:** Last Thursday's Euroworking Group discussed the 2019 draft budget, and although the institutions are reportedly not opposed to the suspension of the legislated pension cuts, they express reservations about other proposed expansionary measures and ask for detailed information. In any case, a possible solution that has reportedly surfaced in recent days is the partial implementation of the pension cuts. On the economic data front, the releases that prevail in this week's economic calendar are the Turnover Index in Retail Trade for August 2018 and the PMI Manufacturing for October 2018.

### SOUTH EASTERN EUROPE

**BULGARIA:** The SOFIX index dropped by 1.4% in the past week in line with the negative global equities markets sentiment.

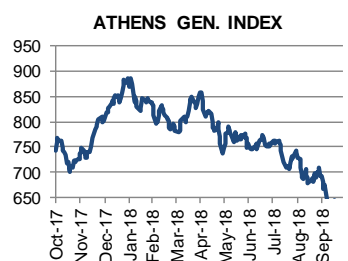
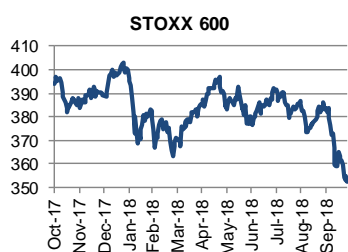
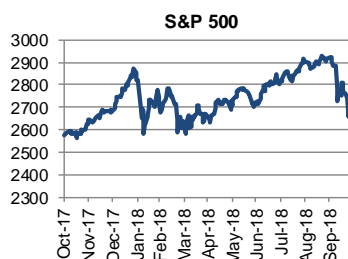
**SERBIA:** The EUR/RSD remained bound within a 118.30 – 118.70 trading range in the past week.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

In line with market expectations, late on Friday S&P revised its outlook on Italy to negative from stable and affirmed the rating at BBB, two notches above non-investment grade. In the accompanying statement, the ratings agency warned that the Italian government's economic and fiscal policies weigh on the country's economic growth prospects while its GDP growth forecasts are "overly optimistic" and the public debt will not come down as planned. In particular, S&P projects annual GDP growth at 1.1% for both 2018 and 2019 and about 1.0% in 2020-21, while the budget deficit is expected to come in at 2.7% of GDP in 2019, 2.5% in 2020 and 2.4% in 2021. Market relief on the back of no ratings downgrade boosted Italy's sovereign bonds with the 10-yr yield falling to a one-week low of 3.34% earlier today, c. 10bps lower on the day with the spread against its German counterpart coming down to levels below 300bps for the first time in around two weeks. Meanwhile, core government bonds retained a firm tone favored by global equity markets' lackluster performance amid lingering concerns about the global growth outlook, corporate earnings results and the likelihood of a more aggressive than currently expected Fed rating tightening ahead. The 10-yr UST yield was standing close to Friday's 3½ week intraday low of 3.057% at the time of writing while the 10-yr Bund was yielding levels around 0.356%, not far from a seven-week low of 0.339% marked in the prior session.

In FX markets, the DXY index retained a positive tone standing close to Friday's multi-week peak of 96.860 in reaction to positive US GDP data. Q3 GDP growth rate came in at 3.5%QoQ annualized, moderating from 4.2% in Q2 but still well above potential growth mainly supported by strong personal consumption and government spending thanks to the ongoing fiscal stimulus. Following a spike to 1.1412 earlier today, the EUR/USD retreated to levels around 1.1385/88 in early European trade, not far from a multi-week trough of 1.1332 hit on Friday amid concerns about a more pronounced than currently expected slowdown in Eurozone GDP growth this year as well as worries over a possible further rise in tensions between the Italian government and the EU Commission. Today the UK Chancellor will deliver the 2019 Budget while, looking at the remainder of the week, Friday's US non-farm payrolls report for October and the advance Q3 GDP estimate on Tuesday lure market attention.

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### GREECE

Last Thursday's Euroworking Group discussed the 2019 draft budget, and although the institutions are reportedly not opposed to the suspension of the legislated pension cuts, they express reservations about other proposed expansionary measures and ask for detailed information. In particular, they claim that if the pensions are not cut, there will be a fiscal gap of EUR300 million in 2019 leaving no budgetary space to implement the announcements made by the Greek PM Alexis Tsipras at the Thessaloniki International Fair, such as the reduction of the property tax (ENFIA), the rent subsidy, the reduction of the social security contributions for self-employed and the support of young people. In any case, a possible solution that has reportedly surfaced in recent days is the partial implementation of the pension cuts. Last week, ESM Managing Director Klaus Regling, made a reference on this as a possible course of action. On the economic data front, the releases that prevail in this week's economic calendar are the Turnover Index in Retail Trade for August 2018 and the PMI Manufacturing for October 2018.

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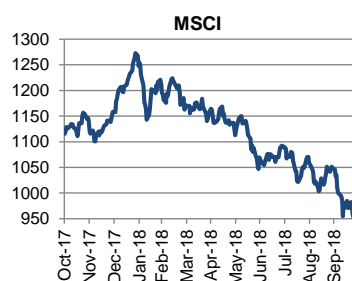
BULGARIA: Indicators	2016	2017e	2018f
Real GDP growth %	3.9	3.8	3.8
CPI (pa, yoy %)	-0.8	2.1	2.4
Budget Balance/GDP*	1.6	0.8	-1.0
Current Account/GDP	5.4	5.0	4.5
EUR/BGN (eop)	1.9558		
	2016	current	2017
Policy Rate (eop)	N/A	N/A	N/A

\* 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

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

The recent global selloff of equities had also a negative impact on the Bulgarian market with the main index SOFIX dropping 1.4% over the week to 599.65 points. The trading volume was also inflated, ending at €2.5mn. External government yields registered little to no change on a weekly basis, followed by the local papers, which also registered negligible moves, with the exception of the 4 year tenor, which saw its yield rise by almost 4 bps.

### SERBIA

The EUR/RSD remained bound within a 118.30 – 118.70 trading range in the past week. The EUR/RSD has encountered resistance once again near 118.60 levels and reversed from weekly tops to test the 118.30/50 later in the week. This time, the reversal came after the National Bank of Serbia decided to intervene around mentioned tops, which was the main trigger for the comeback. Looking forward, we expect the Euro to gain further momentum on the back of strong demand but how far can it could go will depend of how hard the Central Bank will try to keep EUR/RSD in a narrow range.

In other news, the Fiscal Council said on Wednesday that that decision of the government on increasing pensions below RSD 34,000 had depleted all possibilities for increasing pensions in 2018. The Fiscal Council noted that the budget limit for increasing pensions in 2019 is around 7% in total, which is in line with the government and the IMF's projections. According to the Council's statement "the greatest part of this amount (5%) was legitimately used by the government to annul the Law on Temporary Pension Cuts, which is in line with the Fiscal Council's recommendations". The government also opted to use part of the assets to introduce a one off increase for pensioners whose pensions are below RSD 34,000 leaving no room for a normal indexation of pensions of all other categories of pensioners in 2019.

\* We would like to thank Ruslan Raychev from Eurobank Bulgaria and Zoran Korac from Eurobank Beograd for their invaluable contribution in today's issue.

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## GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities																																																																
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### SERBIA

Money Market			
BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.35	0	-17
1-week	2.44	0	-17
1-month	2.63	0	-22
3-month	2.96	0	-16
6-month	3.12	0	-12

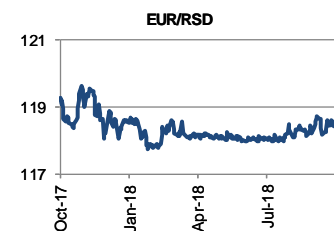
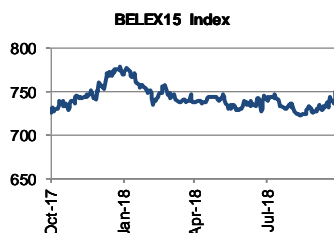
RS Local Bonds			
	Last	ΔDbps	ΔYTD bps
3Y RSD	3.19	0	-109
5Y RSD	3.65	0	-65
7Y RSD	4.15	0	-102

RS Eurobonds			
	Last	ΔDbps	ΔYTD bps
USD Feb-20	4.05	2	106

CDS			
	Last	ΔDbps	ΔYTD bps
5-year	111	0	-7
10-year	158	0	-4

STOCKS			
	Last	ΔD	ΔYTD
BELEX15	749.7	0.02%	-1.33%

FOREX			
	Last	ΔD	ΔYTD
EUR/RSD	118.77	0.10%	0.12%



### ROMANIA

Money Market			
ROBOR	Last	ΔDbps	ΔYTD bps
O/N	3.66	0	257
1-month	3.4	0	153
3-month	3.38	0	133
6-month	3.58	0	131
12-month	3.68	0	136

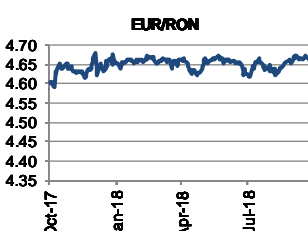
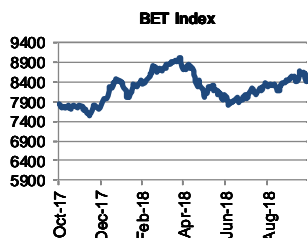
RO Local Bonds			
	Last	ΔDbps	ΔYTD bps
3Y RON	4.49	0	111
5Y RON	4.72	0	94
10Y RON	5.10	0	78

RO Eurobonds			
	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.55	0	0
USD Jan-24	4.41	0	141

CDS			
	Last	ΔDbps	ΔYTD bps
5-year	101	0	11
10-year	143	1	10

STOCKS			
	Last	ΔD	ΔYTD
BET	8412.4	-1.00%	8.49%

FOREX			
	Last	ΔD	ΔYTD
EUR/RON	4.665	-0.09%	0.00%



### 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

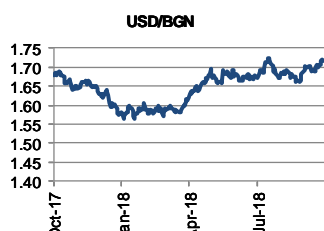
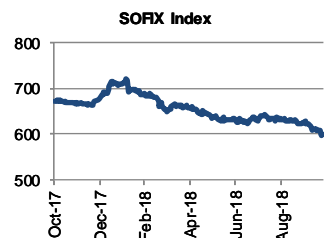
BG Local Bonds			
(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.04	-1	2
5Y BGN	0.09	2	-5
10Y BGN	0.79	0	-18

BG Eurobonds			
	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.05	1	9
EUR Sep-24	0.60	3	3

CDS			
	Last	ΔDbps	ΔYTD bps
5-year	80	0	-16
10-year	124	0	-17

STOCKS			
	Last	ΔD	ΔYTD
SOFIX	599.7	0.15%	-11.48%

FOREX			
	Last	ΔD	ΔYTD
USD/BGN	1.7151	-0.02%	-5.00%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research  
Data updated as of 09:48 EEST

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