

Monday 25 February 2019

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- Feb 25:
 - Wholesale inventories (Jan)
- Feb 27:
 - Advance goods trade balance (Dec)
 - Factory orders (Dec)
 - Pending home sales (Dec)
- Feb 28:
 - GDP (Q4 2018)
 - Core PCE (Q4 2018)
 - Chicago Purchasing managers (Feb.)
- Mar 01:
 - Personal income (Dec)
 - PCE headline and core prices (Dec)

EUROZONE

- Feb 27:
 - M3 money supply (Jan)
 - Economic confidence (Feb)
 - Business climate indicator (Feb)
- Mar 01:
 - Markit Eurozone manufacturing PMI (Feb)
 - CPI Core (Feb)
 - Unemployment rate (Jan)

GREECE

- Feb 28:
 - Retail sales (Dec)
- Mar 01:
 - Markit manufacturing PMI (Feb)

SEE

BULGARIA

- Feb 28
 - Gross external debt (Dec)
 - Budget balance (Jan)
 - Key Policy Interest Rate announcement

ROMANIA

- Mar 01:
 - Unemployment rate (Jan.)
 - International reserves (Feb)

SERBIA

- Feb 25: Real gross wages (Dec)
- Feb 28: GDP (Q4)
-

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: Asian stocks ended sharply higher earlier today and European bourses followed suit in early trade amid increased optimism about an ultimate trade agreement between the US and China in the not too distant future. In his latest post on Twitter last night, US President Donald Trump said that, taking into account the substantial progress in trade talks, he is considering to extend the March 1st deadline for raising tariffs on \$200bn of Chinese goods from 10% to 25%. He also indicated that he is planning to meet his Chinese counterpart to conclude the trade agreement, with press reports conveying that the meeting is being tentatively planned for late March. In FX markets, the EUR/USD continued to struggle around the 1.1300 handle as investors wait for key events this week in the US and the UK. In the US, Q4 GDP data are due for release on Friday while Fed Chair Jerome Powell will deliver his semi-annual testimony on Tuesday and Wednesday. In the UK, the House of Commons will vote on Wednesday on PM Theresa May's Brexit strategy. Reportedly, MPs are likely to take control of the Brexit process and force the PM to extend Article 50, if her Brexit deal has not been approved by 13 March.

GREECE: The 2nd EPPS review is expected this week and although many commitments remain incomplete, according to press the report may keep a balanced tone unofficially giving the Greek government an extension up to 8 March to close pending actions. DG Comp is expected to reply today about the proposal of the Ministry of Energy /PPC for the new tender regarding the divestiture of the lignite-fired PPC units.

SOUTH EASTERN EUROPE

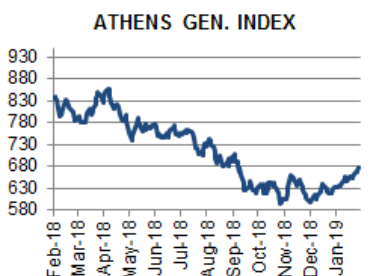
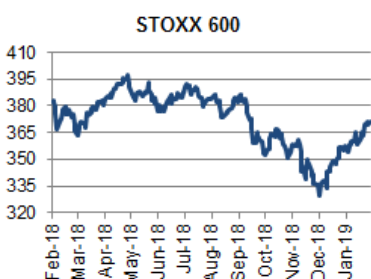
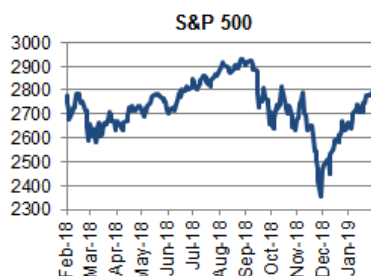
CESEE MARKETS: According to data released from Eurostat on Friday, in Bulgaria inflation came in at 2.2% YoY in January compared to 2.3% YoY in December while in Romania CPI hiked to 3.2% YoY vs 3.0% in December, which is the highest figure in the EU for January. According to the National Bank of Serbia (NBS) inflation stood at 2.1% YoY vs 2.0% in December. This week's calendar is rich in terms of economic information in the region. We anticipate a plethora of Q4 2018 GDP data, among which those for Croatia, the Czech Republic, Hungary, Poland and Serbia. Finally, we expect parliamentary discussions to continue in Romania both on the banking taxation and the 2019 Budget, following the latter's rejection by President Klaus Johannis on the grounds of overoptimistic assumptions.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Asian stocks ended sharply higher earlier today and European bourses followed suit in early trade amid increased optimism about an ultimate trade agreement between the US and China in the not too distant future. In his latest post on Twitter last night, US President Donald Trump said that, taking into account the substantial progress in trade talks, he is considering to extend the March 1st deadline for raising tariffs on \$200bn of Chinese goods from 10% to 25%. He also indicated that he is planning to meet his Chinese counterpart to conclude the trade agreement, with press reports conveying that the meeting is being tentatively planned for late March. The mitigated risk for a trade and tariff war in the near-term weighed on US Treasuries while the slightly more hawkish than expected tone of the minutes from the January 29-30 FOMC meeting released last week, also continued to have an impact. The 10-yr yield was standing c. 1.5bps higher on the day at 2.67% in early European trade at the time of writing but not much changed on a weekly basis amid market uncertainty about the US growth outlook as the global economy has started to lose momentum. Taking their lead from US sovereign paper, German Bund yields were also higher on the day, shrugging off the release of Germany's IFO business confidence index on Friday, which showed a further decline in February for the sixth month in a row to four-year low of 98.5. Turning to the EMU periphery sovereign bond market, Italy outperformed with the 10-yr BTP-Bund yield spread narrowing to a two-week low of 266bps on market relief that Fitch affirmed Italy's sovereign credit rating at BBB, two notches above junk, with a negative outlook. In FX markets, the EUR/USD continued to struggle around the 1.1300 handle as investors wait for key events this week in the US and the UK. In the US, Q4 GDP data are due for release on Friday which are expected to show a slowdown to an annual rate of around 2.0% compared to 3.4% in the prior quarter while Fed Chair Jerome Powell will deliver his semi-annual testimony on Tuesday and Wednesday. In the UK, the House of Commons will vote on Wednesday on PM Theresa May's Brexit strategy. Reportedly, MPs are likely to take control of the Brexit process and force the PM to extend Article 50, if her Brexit deal has not been approved by 13 March.

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GREECE

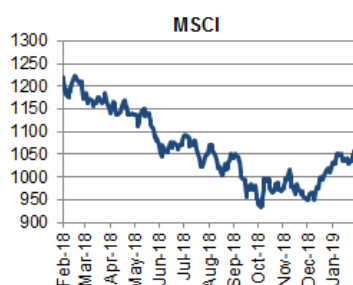
The 2nd EPPS review is expected this week and although many commitments remain incomplete, according to press the report may keep a balanced tone unofficially giving the Greek government an extension up to 8 March to close pending actions. Meanwhile, on Friday a teleconference was reportedly held between DG Comp, the Ministry of Energy and PPC regarding the next steps for the divestiture of the lignite-fired PPC units. The joint proposal of the Ministry of Energy and PPC, foresees the launch of a new tender which will include revised parameters with regard to the operating cost of the units as well as new Sale and Purchase Agreement terms. DG Comp is reportedly expected to reply today. As regards DEPA, the bill for its break-up into DEPA Commercial and DEPA Infrastructure – a prerequisite for the privatisation of a 50% + 1 share of the first – may be tabled to Parliament by the end of this week. Nevertheless, given the actions that need to precede the privatisation, the tender is not expected to be launched before June while the possibility of general elections may delay the process further. Finally, the binding offers for HELPE are expected to be submitted by mid-March while as regards the extension of the concession of the Athens International Airport the financial closing took place with the payment of €1,115 billion by the concessionaire.

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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

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

CESEE MARKETS

According to data released from Eurostat on Friday, in Bulgaria inflation came in at 2.2% YoY in January compared to 2.3% YoY in December while in Romania CPI hiked to 3.2% YoY vs 3.0% in December, which is the highest in the EU for January. Latvia follows with 2.9% YoY and Estonia and Hungary with both presenting 2.8% YoY inflation figures.

According to the National Bank of Serbia (NBS) inflation stood at 2.1% YoY vs 2.0% in December. Breaking down the figures, it is evident that the main upward pressure is attributed to food and beverage prices and specifically the vegetables prices. The aforementioned segment of products depicted a price increase of ca. 3.0% YoY in January vs 2.7% in December, which could have led to a higher final inflation figure if it hadn't been for the lower transportation prices which were bravely reduced (2.8% YoY in January vs 4.0% YoY in December) and acted as headwinds towards further CPI increase.

Concerning the regional FX markets, within the previous week, the EUR/RSD rate was hovering around the pivotal quote of 118.00. Market sentiment towards the Serbian currency has been significantly bearish but the National Bank of Serbia (NBS) has been trying to keep the EUR/RSD range trading. While interventions realized just one month ago were aiming at safeguarding the dinar strength, currently, they are protecting the Dinar against appreciation pressures.

That said, on February 20, NBS auctioned RSD7.9bn of seven-day reverse repos, absorbing excess liquidity from the Serbian money market. The auction attracted 5 Serbian banks that placed their funds at an average rate of 2.09%. Following the spike in short term deposit interest rates seen at the end of January, the EUR/RSD is back to normal at the time of writing.

In the local debt markets, the Serbian Debt Agency sold 3Y RSD denominated T- bonds in the amount of RSD42.2bn at a yield of 3.73%. The securities bear a coupon of 3.75% per annum. Previous auction of this bond was held on January 15th with the same yield. In Bulgaria, both the local and sovereign yields had modest drops of 2 to 4 bps across the board.

Concluding with the regional bourses, the main Bulgarian equity index SOFIX edged higher for the week by 0.93% or 5.3 points. The trading volume was higher than usual, finishing at EUR3.1mn.

This week's calendar is rich in terms of economic information in the region. We anticipate plethora of Q42018 GDP structure data, among which those for Croatia, the Czech Republic, Hungary, Poland and Serbia. Finally, we expect parliamentary discussions to continue in Romania both on the banking taxation and the 2019 Budget, following the latter's rejection by President Klaus Johannis on the grounds of overoptimistic assumptions adopted while conducting this year's budget.

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

Monday 25 February 2019

GLOBAL MARKETS

Stock markets	FOREX	Government Bonds	Commodities																																																																
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SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.36	0	-8
1-week	2.48	0	-8
1-month	2.69	0	-4
3-month	3.01	0	-2
6-month	3.15	0	-3

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.16	-1	10
5Y RSD	3.77	0	27
7Y RSD	4.05	0	-10

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.81	0	-19

CDS

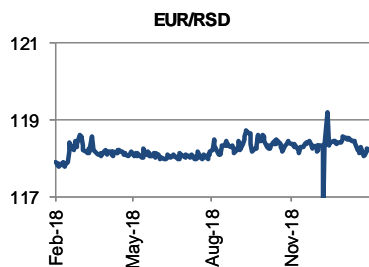
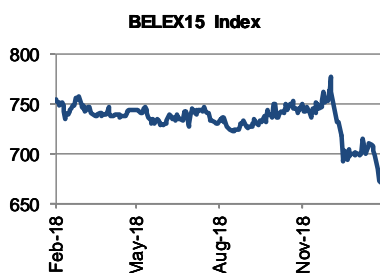
	Last	ΔDbps	ΔYTD bps
5-year	109	-1	-8
10-year	159	-1	-3

STOCKS

	Last	ΔD	ΔYTD
BELEX15	684.6	0.58%	-10.12%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.22	0.03%	0.01%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	3.62	0	253
1-month	3.36	0	149
3-month	3.28	0	123
6-month	3.41	0	114
12-month	3.55	0	123

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.88	0	-15
5Y RON	4.34	0	0
10Y RON	4.79	0	-3

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.53	-	-1
USD Jan-24	3.71	1	-52

CDS

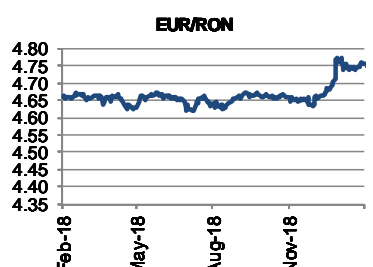
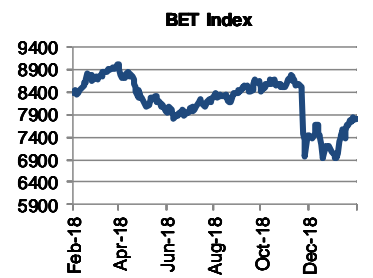
	Last	ΔDbps	ΔYTD bps
5-year	108	2	18
10-year	152	2	18

STOCKS

	Last	ΔD	ΔYTD
BET	7811.1	0.57%	5.79%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7575	0.05%	-2.17%



BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.22	8	3
3-month	-0.14	9	4
6-month	-0.02	10	3
12-month	0.36	14	4

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.16	-1	-11
5Y BGN	0.01	-3	-10
10Y BGN	0.67	0	-8

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.06	0	-2
EUR Sep-24	0.23	0	-25

CDS

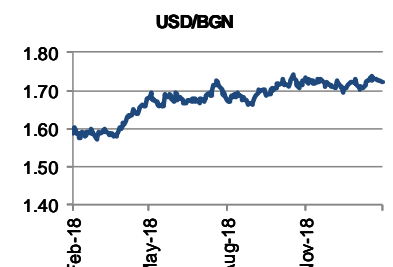
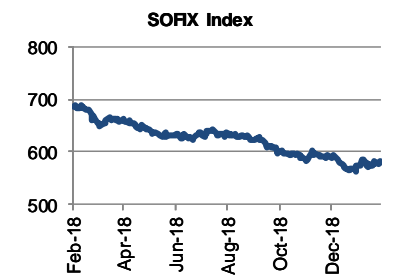
	Last	ΔDbps	ΔYTD bps
5-year	78	0	-18
10-year	121	0	-21

STOCKS

	Last	ΔD	ΔYTD
SOFIX	582.5	0.79%	-2.01%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.724	0.03%	-1.07%



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

Data updated as of 10:05 EEST

Monday 25 February 2019

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