

# DAILY OVERVIEW

## OF GLOBAL MARKETS & THE SEE REGION

Thursday 06 June 2019

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### US

- June 03:
  - Markit Manufacturing PMI (May, final)
  - ISM Manufacturing Index (May)
  - Construction Spending (Apr)
- June 04: Factory Orders (Apr)
- June 05:
  - Markit Services & Composite PMI (May, final)
  - ISM Non Manufacturing Index (May)
- June 6:
  - Trade Balance (Apr)
  - Initial Jobless Claims (Jun 1)
- June 7:
  - Change in Non Farm payrolls & Unemployment Rate (May)

#### EUROZONE

- June 03: Markit Manufacturing PMI (May, final)
- June 04:
  - Unemployment Rate (Apr)
  - CPI (May)
- June 05: Markit Services & Composite (May, final)
- June 06:
  - GDP (Q1, final)
  - ECB Key Policy Rate Meeting

#### GREECE

- June 03: Markit Manufacturing (May)
- June 04: GDP (Q1, provisional estimate)
- June 06: Unemployment Rate (Mar)

#### SEE

##### BULGARIA:

- Jun 06: GDP (Q1, final)
- Jun 07:
  - Industrial Production (Apr)
  - Retail Sales (Apr)

##### SERBIA

- June 6:
  - Key Policy Rate Meeting

Source: Reuters, Bloomberg,  
Eurobank Research

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** All eyes today are on the ECB Governing Council meeting following a recent bulk of mixed data and subdued inflation pressures with the 5Y5Y gauge of inflation expectations standing around 1.29% currently, not far from the mid-2016 record low of 1.25%. The official ECB policy statement is scheduled for release at 13:45 CEST followed by President Mario Draghi's press conference at 14:30 CEST. Meanwhile, investors continue to digest Fed Chair Jerome Powell's recent comments, which supported expectations for lower interest rates in the near future, especially if trade tensions start to weigh on the domestic economy. US Treasuries resumed their upward trend with short-dated paper outperforming on a daily basis. In FX markets, the JPY retained a firm tone favored by lingering anxiety over the US's trade policy after a meeting yesterday between US and Mexico officials ended with few signs of progress.

**GREECE:** The European Commission published yesterday the 3<sup>rd</sup> review on Greece under the Enhanced Post Programme Surveillance (EPPS) which cautions against the government's recent expansionary measures. As far as reforms are concerned, according to the EPPS report progress is mixed while the privatisations programme is behind schedule as regards a number of larger transactions such as HELPE, DEPA, Egnatia, Hellinikon and AIA. In the financial sector improvements are occurring but in a slow pace.

### SOUTH EASTERN EUROPE

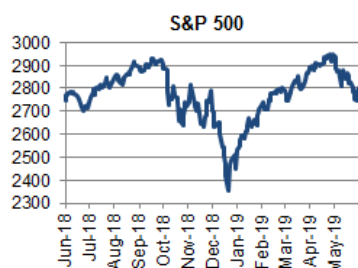
**TURKEY:** Inflation reading surprised to the downside in May for a second consecutive month.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

All eyes today are on the ECB Governing Council meeting following a recent bulk of mixed data and subdued inflation pressures with the 5Y5Y gauge of inflation expectations standing around 1.29% currently, not far from the mid-2016 record low of 1.25%. The official ECB policy statement is scheduled for release at 13:45 CEST followed by President Mario Draghi's press conference at 14:30 CEST. The updated staff projections through 2021 are unlikely to change much. However, in view of low inflation expectations and increased downside growth risks on the back of mounting anxiety over the US's trade policy, the likelihood of the ECB changing its rate guidance again, pushing the expected timing of the first rate hike well into 2020, cannot be ruled out. The ECB is also expected to announce the full details of TLTRO III, which are likely to be favourable in an effort to support the fragile Eurozone economy. In terms of data releases, the final estimate of Q1 GDP 2019 and its main aggregates is scheduled for release later today, ahead of the conclusion of the ECB policy meeting. Meanwhile, investors continue to digest Fed Chair Jerome Powell's recent comments which supported expectations for lower interest rates in the near future, especially if trade tensions start to weigh on the domestic economy. US Treasuries resumed their upward trend with short-dated paper outperforming on a daily basis. The 2-yr note was yielding levels around 1.83% in early European trade at the time of writing, not far from a 1½ year trough of 1.77% recorded earlier this week while the 10-yr yield was standing around 2.10%, within distance from this week's 21-month intra-day low of 2.06%. In terms of rate expectations, Fed fund futures are currently assigning a probability of around 70% for a 25bps rate cut at the 31 July meeting while such a move is fully priced-in by the end of this year. Awaiting the verdict of the ECB policy meeting, the 10-yr Bund yield remained in a downward trend marking a fresh record low of -0.235% earlier today. Euro area May final PMIs yesterday showed a 0.2p upward revision in the Composite PMI to 51.8 but the breakdown of the report still suggests that the euro area growth outlook remains subdued. In FX markets, the JPY retained a firm tone favored by lingering anxiety over the US' trade policy after a meeting between US and Mexico officials yesterday ended with few signs of progress. The USD/JPY was hovering around 108.20/25 at the time of writing, 0.2% weaker on the day and not far from yesterday's 5-month intraday low of 107.80.

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### GREECE

The European Commission published yesterday the 3<sup>rd</sup> review on Greece under the Enhanced Post Programme Surveillance (EPPS) which cautions against the government's recent expansionary measures. More specifically, the report argues that the non-implementation of the pre-legislated income tax credit package as of January 2020 implies not broadening the tax base and creating fiscal space of 1% of GDP for growth-enhancing measures. Moreover, the permanent fiscal measures adopted on May 15<sup>th</sup>, are estimated to have a fiscal cost of more than 1% for GDP in 2019 and beyond thus posing a risk for the achievement of the agreed fiscal target of a primary surplus of 3.5% of GDP in 2019 and beyond. Concerns are also expressed as regards the quality of the said measures, as the EC finds it doubtful whether their impact will in fact be growth-friendly as the government contends. Meanwhile, as far as reforms are concerned, according to the EPPS report progress is mixed while progress in arrears clearance is to the disappointing side. In the financial sector improvements are occurring but in a slow pace while the privatisations programme is behind schedule as regards a number of larger transactions such as HELPE, DEPA, Egnatia, Hellinikon and AIA.

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## Latest economic & market developments in the CESEE region

### TURKEY

#### BULGARIA: Indicators 2017 2018 2019F

	2017	2018	2019F
Real GDP growth %	3.8	3.1	3.5
CPI (pa, yoy %)	1.2	2.6	2.8
Fiscal Balance/GDP*	0.8	0.1	-0.5
Current Account/GDP	3.1	4.6	1.0

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

#### CYPRUS: Indicators 2017 2018 2019F

	2017	2018	2019F
Real GDP growth %	4.5	3.9	3.3
HICP (pa, yoy %)	0.7	0.8	1.0
Fiscal Balance/GDP*	1.8	2.9	3.0
Current Account/GDP	-8.4	-7.0	-7.5

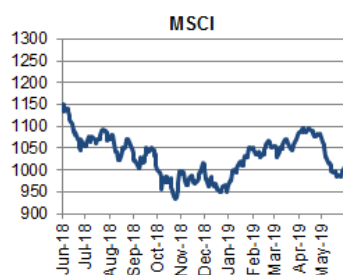
\* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

#### SERBIA: Indicators 2017 2018 2019F

	2017	2018	2019F
Real GDP growth %	2.0	4.3	3.5
CPI (pa, yoy %)	3.2	2.0	2.6
Fiscal Balance/GDP	1.1	0.6	-0.5
Current Account/GDP	-5.2	-5.2	-5.3

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+

Headline inflation declined to 18.7% YoY in May – down to an 8-month low – compared to 19.5% YoY in April down from 19.7% YoY in March coming significantly below analysts' consensus expectations (Actual: +0.95% MoM vs Bloomberg: +1.32% MoM). Despite the monthly decline, food & non-alcoholic beverages prices (-1.2% MoM/ +28.4% YoY in May vs +1.4% MoM/+31.9% YoY in April) were still the main contributor (6.6ppts on an annual basis) in the May reading. Rising world energy prices, renewed domestic currency depreciation pressures, tax hikes in tobacco products, and seasonality were also reflected in the groups of furnishing & household equipment (-1.6% MoM/24.5% YoY), miscellaneous goods and services (1.5% MoM/26.7% YoY), health (0.0% MoM/19.4% YoY), hotels, cafes and restaurants (1.6% MoM/19.8% YoY) and alcoholic beverages & tobacco (8.9% MoM/19.2% YoY).

Despite the supply side shock, headline and core inflation metrics are still on a downward trend. Headline inflation has retreated from its historic highs in recent months ending at 20.3% YoY in December down from 21.6% YoY in November and 25.2% YoY in October. Despite lira depreciation pressures, core inflation (which excludes food, alcohol, tobacco, energy and gold prices) eased further to 15.9% YoY in May down from 16.3% YoY in April vs. 17.5% YoY in March down from 19.5% YoY in December. Looking ahead, weak domestic demand dynamics and favorable base-effects in the food prices segment are expected to support the disinflation process in H2-2018. However, the Central Bank of Turkey (CBRT) has maintained unchanged the year end headline inflation at 14.6% YoY in 2019 in its recently published inflation report, even though it revised some of its fundamental drivers (the annual year-end 2019 food inflation forecast up to 16% from 13%, and the average Brent oil price forecast up to USD67.2/bbl. from USD63.1/bbl.)

On the other hand, markets' concerns over the predictability & efficiency of the government policy and renewed tensions with the US due to the S-400 missile purchases from Russia coupled with investors' concerns over the Central Bank independence have put the lira under pressure again in early May reaching as high as 6.24/\$ in May 10, thus increasing the disinflation process downside risks. Ever since, lira pared back some of its previous weeks' losses on tightened domestic liquidity conditions. At the time of writing, the lira traded around 5.69/\$ in early June higher by 8.8% since May 10, compared to 5.16/\$ in late January, against an all-time low of 6.86/\$ in August of 2018. In turn, CBRT is widely expected to remain on hold until at least the end of Q3-2018, having tightened by a cumulative 1025bps in FY2018 factoring in the 75bps hike delivered in April 2018.

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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	2810.80	0.3%	12.1%	EUR/USD	1.1265	0.1%	-1.8%	UST - 10yr	2.10	-3	-58	GOLD	1334	0.6%	4.0%
Nikkei 225	20776.10	1.8%	3.8%	GBP/USD	1.2737	0.3%	-0.2%	Bund-10yr	-0.23	-2	-47	BRENT CRUDE	62	-0.7%	14.3%
STOXX 600	373.35	0.2%	10.6%	USD/JPY	108.08	0.1%	1.5%	JGB - 10yr	-0.12	-2	-13	LMEX	2768	0.5%	-1.2%

## SERBIA

### Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.22	-1	-22
1-week	2.32	-1	-24
1-month	2.55	-1	-18
3-month	2.96	-1	-7
6-month	3.09	-2	-9

### RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.01	-1	-5
5Y RSD	3.73	0	22
7Y RSD	3.96	0	-20

### RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.23	1	-77

### CDS

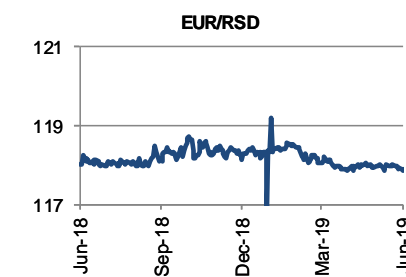
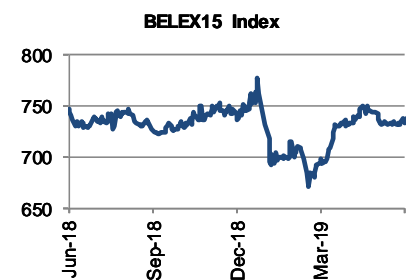
	Last	ΔDbps	ΔYTD bps
5-year	104	3	-14
10-year	149	4	-14

### STOCKS

	Last	ΔD	ΔYTD
BELEX15	733.5	-0.50%	-3.70%

### FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.89	-0.03%	0.30%



## ROMANIA

### Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.51	0	142
1-month	3.08	0	121
3-month	3.24	0	119
6-month	3.37	0	110
12-month	3.54	0	122

### RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.75	0	-28
5Y RON	4.28	0	-6
10Y RON	4.70	0	-12

### RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.27	-	-27
USD Jan-24	3.23	1	-101

### CDS

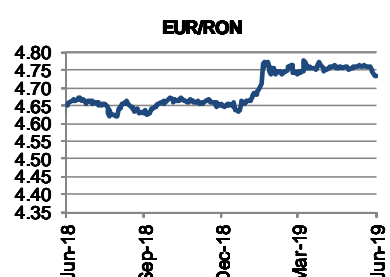
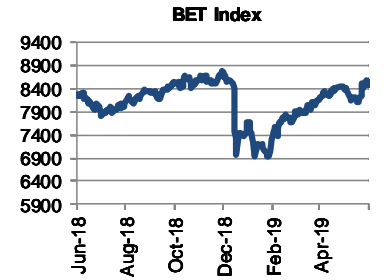
	Last	ΔDbps	ΔYTD bps
5-year	89	0	-1
10-year	134	0	0

### STOCKS

	Last	ΔD	ΔYTD
BET	8492.5	0.23%	15.02%

### FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7344	-0.06%	-1.70%



## 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	-0.25	-1	-19
5Y BGN	-0.03	0	-14
10Y BGN	0.35	0	-40

### BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.10	0	-8
EUR Sep-24	0.12	0	-35

### CDS

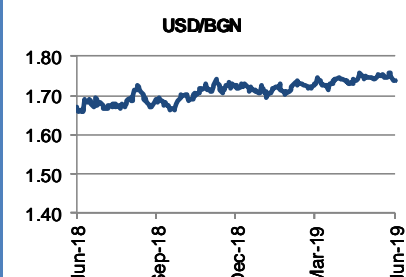
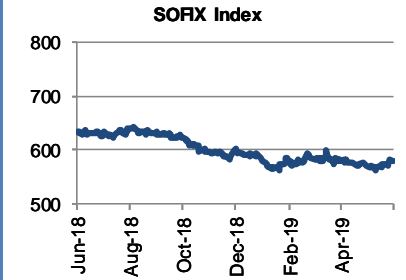
	Last	ΔDbps	ΔYTD bps
5-year	80	0	-17
10-year	129	0	-12

### STOCKS

	Last	ΔD	ΔYTD
SOFIX	580.1	-0.05%	-2.41%

### FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7365	0.10%	-1.79%



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

Data updated as of 17:30 EEST of the previous session

Thursday 06 June 2019

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