

KEY UPCOMING DATA & EVENTS THIS WEEK

US

- June 24: Chicago Fed National Activity index (May)
- June 25:
 - New Home Sales (May)
 - S&P/Case-Schiller National Home Price Index (Apr)
 - Conference Board Consumer Confidence (Jun)
- June 26:
 - Advance Goods Trade Balance (May)
 - Core Capital Goods Orders (May, P)
- June 27:
 - GDP (Q1, 3rd estimate)
 - Initial Jobless Claims (Jun 22)
 - Pending Home Sales (May)
- June 28:
 - Personal income & Spending (May)
 - Core PCE (May)
 - Chicago PMI (Jun)
 - U. Of Michigan Sentiment

EUROZONE

- June 24: IFO Business Climate (Jun, Germany)
- June 27: Economic & Consumer Confidence (Jun)
- June 28: CPI (Jun)

GREECE

- June 28
 - Retail Sales (Apr)
 - PPI (May)

SEE

BULGARIA:

- Jun 27: Gross External Debt (Apr)
- Jun 28: Key Policy Rate Meeting

SERBIA

- June 28:
 - Industrial Output (May)
 - Retail Sales (May)
 - Trade Balance (May)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: US government bonds remained well supported in early European trade on Wednesday on market anxiety ahead of this week's scheduled meeting between US President Donald Trump and his Chinese counterpart Xi Jinping on the sidelines of the G20 meeting on 28-29 June. Yesterday's poor US data, which fueled concerns that US/China trade tensions are taking a toll on the domestic economy, also favored US sovereign paper. Against this background, yesterday's comments by St. Louis Fed President James Bullard, seen as one of the most dovish FOMC participants, that pushed back expectations for an aggressive Fed rate cut in the near future, failed to exert a long lasting impact on US government bonds. In FX markets, the DXY index recovered from yesterday's three-month lows but still 1.6% lower compared to mid-June highs, shortly before the Fed's June meeting. Looking at today's G10 calendar, the highlight is US durable goods orders for May.

GREECE: According to the Ministry of Finance latest available data for the execution of the State Budget on a modified cash basis, the State Budget balance for the period January – May 2019 registered a deficit of €1.8bn against a target of a deficit of €4bn for the same period in the 2019 Budget introductory report and a deficit of €1bn for the same period of 2018. The State Budget primary balance recorded a surplus of €916mn against a primary deficit target of €1.4bn and a primary surplus of €853mn in the same period of 2018.

SOUTH EASTERN EUROPE

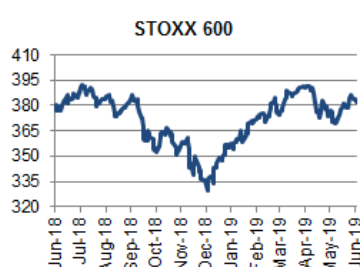
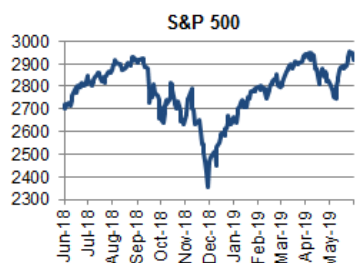
CYPRUS: The non-performing exposures (NPEs) ratio edged up to 31.3% in February from 30.3% in January, mirroring the decline in the loans stock by €917mn.

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Latest world economic & market developments

GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

US government bonds remained well supported in early European trade on Wednesday on market anxiety ahead of this week's scheduled meeting between US President Donald Trump and his Chinese counterpart Xi Jinping on the sidelines of the G20 meeting on 28-29 June. Last week's telephone conversation between the two leaders has raised market hopes for a trade war ceasefire and the resumption of negotiations. However, the re-launch of trade talks does not guarantee a final deal and there is still the risk of a renewed escalation. Today's newswires quoted an unnamed senior US official as saying that the US does not intend to resume trade talks with concessions and wants China to come back to the negotiating table with the promises it withdrew before talks broke down in mid-May. Yesterday's poor US data, which fueled concerns that US/China trade tensions are taking a toll on the domestic economy, also favored US sovereign paper. The CB's consumer confidence index dropped by 9.8 points in June, the largest monthly drop in around four years, coming in at 121.5, the lowest level since September 2017. In addition, new home sales which account for about 10.5% of housing market sales, unexpectedly fell 7.8% to a seasonally adjusted annual rate of 626,000 units in May, the lowest level in five months. Against this background, the 10-yr UST yield was hovering around 2.0% in early European trade at the time of writing, within distance from last week's 2½-year low of 1.97% and some 8bps lower compared to levels that prevailed shortly before the conclusion of the Fed's 18-19 June monetary policy meeting. Yesterday's comments by St. Louis Fed President James Bullard, seen as one of the most dovish FOMC participants, that pushed back expectations for an aggressive Fed rate cut in the near future, failed to exert a long lasting impact on US government bonds. Along these lines, the 10-yr Bund yield was standing close to yesterday's fresh record low of -0.336%, while the respective Dutch, Austrian and Finnish bonds were also yielding levels in negative territory. In FX markets, supported by reduced expectations for an aggressive Fed rate easing soon, the DXY index recovered from yesterday's new three-month lows. The EUR/USD retreated to levels around 1.1360/65 in early European trade following yesterday's three-month high of 1.1412, but still some 1.6% higher compared to mid-June lows, shortly before the Fed's latest meeting. Looking at today's G10 calendar, the highlight is US durable goods orders for May.

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GREECE

According to the Ministry of Finance latest available data for the execution of the State Budget on a modified cash basis, the State Budget balance for the period January – May 2019 registered a deficit of €1.8bn against a target of a deficit of €4bn for the same period in the 2019 Budget introductory report and a deficit of €1bn for the same period of 2018. The State Budget primary balance recorded a surplus of €916mn against a primary deficit target of €1.4bn and a primary surplus of €853mn in the same period of 2018. The increase against the target was achieved mainly due to increased sales of goods and services by €1.1bn pertaining to a large extent to the extension of the AIA concession, increased VAT by €664mn on other goods and services (incl. VAT of €272mn from the extension of the AIA concession) and transfers by €869mn including an amount of €644mn received in May 2019 regarding ANFAs. Other revenue categories that registered increases against the target are: Excise Tax on Fuel by €29mn, other taxes on services by €96mn, taxes and tariffs on imports by €17mn, property taxes by €39mn (of which the unified property tax (ENFIA) by €29mn), other taxes on production by €36mn, corporate income tax (CIT) by €43mn, capital taxes by €43mn and other current revenue by €117mn. PIB expenditure reached €1.1bn, lower by €140mn against the target.

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Latest economic & market developments in the CESEE region

CYPRUS

BULGARIA: Indicators	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

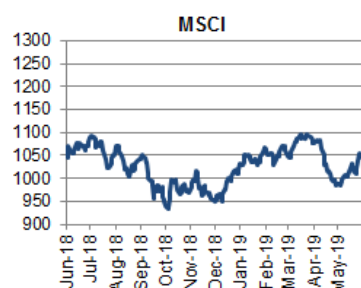
CYPRUS: Indicators	2017	2018	2019F
Real GDP growth %	4.5	3.9	3.3
HICP (pa, yoy %)	0.7	0.8	1.0
Fiscal Balance/GDP*	1.8	2.9	3.0
Current Account/GDP	-8.4	-7.0	-7.5

* ESA 2010

Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2017	2018	2019F
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+

On the data front, non-performing exposures (NPEs) edged down by €19mn in February, compared to a small increase by €47mn in January, after having declined by €834mn in December, bringing the stock of NPEs down by 62.4% over the period from December 2014 to February 2019. Recall that, NPEs decreased by 10.3bn in 2018, reflecting the carve out of the Cyprus Cooperative Bank (CCB) bad loans and the securitization of a large bad loans portfolio by the Bank of Cyprus to Apollo (widely known as project Helix). Meanwhile, the process of deleveraging continues rapidly. Having declined by €13.2bn in 2018, loan exposures (performing plus non-performing) by €917mn in February – which is a higher decrease than that in their non-performing component alone – on top of a small increase of €145mn in January.

As a result, the ratio of NPEs (non-performing to total exposures) edged up to 31.3% in January vs. 30.3% in December down from 31.8% in November vs. 40.3% in June 2018, compared to 43.7% in December 2017, 47.2% in December 2016, 45.8% in December 2015 and 47.8% in December 2014. Recall that according to the EBA conservative definition, a restructured NPE is still classified as an NPE for a probation period of at least 12 months, even if it is properly serviced without incurring new arrears. As a result, a large fraction of the restructured loans are still classified as NPEs (€4.6bn out of €6.5bn in February 2019).

Further progress on the NPEs issue hinges upon three game-changing factors: 1) the implementation of the reformed insolvency and foreclosures frameworks, and 2) the government-subsidized ESTIA plan 3) further sales of bad loans to private funds. As far as the first factor is concerned, the results so far are not encouraging at first sight. According to recent media reports, the number of foreclosures and successfully completed auctions has showed little improvement. However, the reformed frameworks have increased the bargaining power of creditors thus resulting in an increase of debt-to-asset swaps and restructurings. On the negative side, there are underway individual parliamentary parties' initiatives to reverse partially or completely some of the provisions of the reformed frameworks that could result in the backtracking of the NPEs cleaning up process.

According to the latest information available, the ESTIA plan implementation is about to begin in July. To that end, domestic banks have already checked the eligibility and communicated it to their respective customers. In late January of this year, the parliamentary committee on budgetary and financial affairs approved the release of the funds designated for the ESTIA government plan in 2019. However, the implementation of the scheme had encountered further delays as the MoU draft between the banks and the state was under the scrutiny of the Legal Service for a prolonged period of time. Finally, a similar to last year's securitization bad loans portfolio is underway in the Bank of Cyprus (Helix 2). If that is completed on time, then the NPEs ratio could drop to single digit levels by the end of 2019-early 2020.

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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	2917.38	-0.9%	16.4%	EUR/USD	1.1366	0.0%	-0.9%	UST - 10yr	2.01	3	-67	GOLD	1410	-1.0%	9.9%
Nikkei 225	21086.59	-0.5%	5.4%	GBP/USD	1.2675	-0.1%	-0.7%	Bund-10yr	-0.32	1	-56	BRENT CRUDE	66	1.4%	22.7%
STOXX 600	382.18	-0.3%	13.2%	USD/JPY	107.46	-0.3%	2.1%	JGB - 10yr	-0.14	2	-14	LME X	2839	1.4%	1.4%

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.20	0	-24
1-week	2.30	0	-26
1-month	2.53	1	-20
3-month	2.95	0	-8
6-month	3.09	1	-9

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	2.90	-1	-16
5Y RSD	3.32	0	-19
7Y RSD	3.55	0	-61

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	2.56	-1	-144

CDS

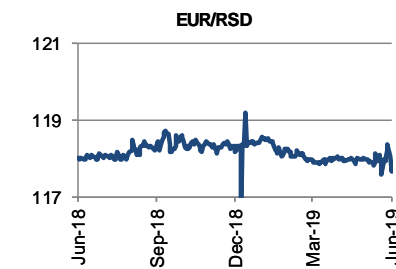
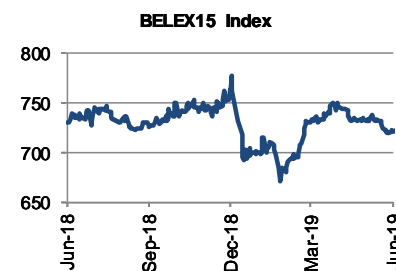
	Last	ΔDbps	ΔYTD bps
5-year	91	0	-27
10-year	133	0	-29

STOCKS

	Last	ΔD	ΔYTD
BELEX15	721.7	-0.08%	-5.25%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	117.94	-0.40%	0.25%



ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.63	0	154
1-month	3.01	0	114
3-month	3.23	0	118
6-month	3.37	0	110
12-month	3.54	0	122

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.68	0	-35
5Y RON	4.03	0	-31
10Y RON	4.41	0	-40

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	0.80	-	-74
USD Jan-24	2.85	0	-138

CDS

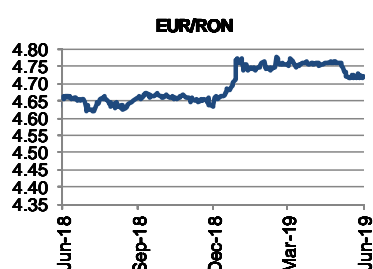
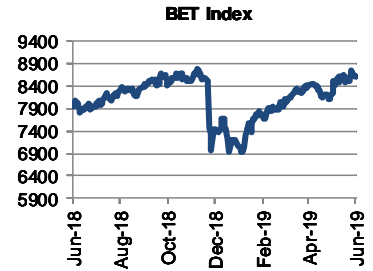
	Last	ΔDbps	ΔYTD bps
5-year	87	2	-3
10-year	132	3	-2

STOCKS

	Last	ΔD	ΔYTD
BET	8621.1	0.30%	16.76%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.7206	-0.04%	-1.41%



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	-0.24	-1	-18
5Y BGN	0.00	0	-11
10Y BGN	0.27	0	-48

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	-0.15	0	-11
EUR Sep-24	0.04	2	-44

CDS

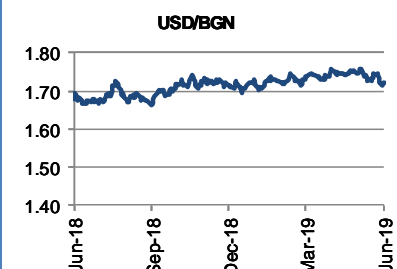
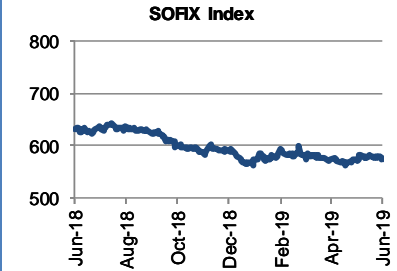
	Last	ΔDbps	ΔYTD bps
5-year	79	0	-17
10-year	129	0	-12

STOCKS

	Last	ΔD	ΔYTD
SOFIX	573.3	-0.36%	-3.57%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.7207	0.00%	-0.88%



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

Data updated as of 10:30 EEST

Wednesday 26 June 2019

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