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Eurobank Research

GLOBAL & REGIONAL MONTHLY

As was revealed in Q3 GDP reports from several major economies, the global economic recovery continues, but the growth momentum has slowed after peaking in Q2 following the reopening of economies. Meanwhile, inflation pressures continue to build, with investors upgrading their inflation expectations and position towards an earlier and faster monetary policy normalization. This comes as several major CBs are shifting to a more hawkish stance, amid concerns that stubbornly high inflation could be embedded into inflation expectations, triggering material second round effects on the labour market.

Macro Picture

USA: Signs that the Q3 soft patch is unlikely to carry into Q4

EA: Real GDP growth has likely peaked in Q3, but should continue to advance robustly

UK: GDP growth is slowing amid supply side constraints and cost pressures

EM: Low vaccination rates and the ongoing slowdown in China derail the return to pre-Covid levels in terms of GDP growth

CESEE: The region takes a hit by rallying energy prices and the resurgence of Covid-19 infections

Markets

FX: USD strength has paused as QE tapering seems priced in for the moment

Rates: EU and US rates remain very volatile, while both of the curves have flattened in anticipation of earlier than expected interest rate hikes

EM: Local currency Fixed Income under pressure as Central Banks continue their hiking policies. US rates relatively anchored for now

Credit: Spreads marginally tighter in October, expected to move moderately wider towards end of Q4, on higher rates and tapering initiation

Policy Outlook

USA: Imminent Fed tapering announcement expected amid elevated inflation uncertainty

EA: Rejection by the ECB of market expectations for a rate hike at the end of 2022

UK: Risk of a BoE rate hike by year-end amid concerns over higher inflation feeding into inflation expectations

CESEE: Regional Central Banks tighten further or initiate tightening their monetary policy stance

Key Downside Risks

DM: Long-lasting higher inflation becomes embedded into inflation expectations, premature and aggressive withdrawal of policy support, spread of new more infectious variants, re-imposition of stricter activity restrictions

EM: Unwinding monetary tightening by more Central Banks around the globe, surging commodity prices, mounting levels of debt, limited room for further accommodative policy and slower vaccination rollout cloud the pace of economic recovery

Special Topic in this issue:

Central Banks' monetary policy response in the CESEE region

Contributing Authors:

Ioannis Gkionis
Senior Economist
igkionis@eurobank.gr

Maria Kasola
Economic Analyst
mkasola@eurobank.gr

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr

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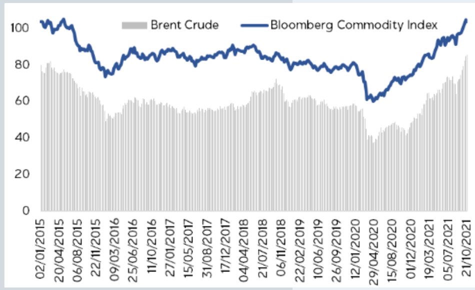
World Economic Outlook

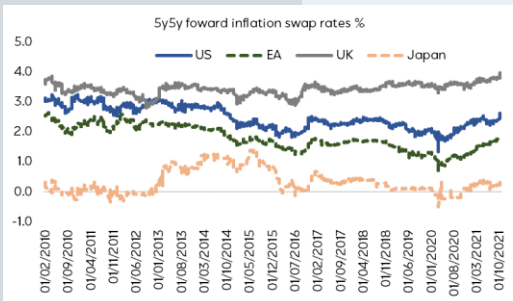
As was revealed in Q3 GDP reports from several major economies, the global economic recovery continues, but the growth momentum has slowed after peaking in Q2 following the reopening of economies. Manufacturing in particular, continues to be hampered by still unresolved supply-side disruptions, after the Covid-19-induced damage on critical links of global supply chains, while shortages of microchips remain an issue for the automotive industry. In its updated World Economic Outlook, the IMF revised slightly lower its world GDP growth forecast for the current year to 5.9%, from 6.0% in July, whereas its 2022 projection was kept at 4.9%. Meanwhile, inflation pressures continue to build. Ongoing supply-side issues and pent-up demand contributed to a broad-based advance across the commodity sphere, with Brent Crude hitting a fresh post-2018 high above $86.50/bbl and natural gas prices moving sharply higher, bringing the Bloomberg Commodity Spot Index's gains since the post-pandemic low in March 2020 to around 80%. Meanwhile, the recent spike in energy prices has fueled concerns about inflation accelerating even further than expected, with investors upgrading their inflation expectations (5y5y forward inflation swaps at multi-year highs in many places around the globe) and position towards an earlier and faster monetary policy normalization from several major CBs. That said, money markets are currently pricing-in the first rate hike from the BoE to be delivered by its December policy meeting, while the Fed is expected to deliver more than two rate hikes by end-December 2022 compared to less than one hike a few weeks ago. This comes as, despite the slowing pace of economic recovery, several major CBs are shifting to a more hawkish stance, amid concerns that stubbornly high inflation could be embedded into inflation expectations, triggering material second-round effects on the labour market. Overall, inflation risks are skewed to the upside, while 2021 global GDP growth is seen reaching 5.9%, before lowering gear to 4.5% in 2022, due to the waning effect of the monetary and fiscal policy boost.

Figure 1 : Broad-based advance across the commodity sphere



Source: Bloomberg, Eurobank Research

Figure 2 : Rising inflation expectations



Source: Bloomberg, Eurobank Research

Developed Economies

US: According to the advance estimate, GDP grew at an annual rate of 2.0% in Q3, the slowest pace since Q2 2020 and a sharp slowdown from 6.7% in the prior quarter, mainly driven by a pronounced deceleration in personal consumption amid fading fiscal support, supply-chain disruptions and Covid-19 infection risks. In fact, most of the growth came from a faster stockbuilding, as inventories contracted for the third consecutive quarter, but at a slower pace than in Q2. However, recent high frequency and sentment indicators support optimism that the soft patch of activty in Q3 has come to an end and economic growth is likely to regain momentum in Q4. Most importantly, household spending appears to have reaccelerated, while the labor market continues to recover, with average hourly earnings growth on a steady rising trend. On the inflation front, pressures remain elevated, while uncertainty is unusually high amid continued volatility in the CPI components affected by supply chain issues and a sharp acceleration in rental inflation, supporting expectations for an imminent Fed tapering announcement.

Euro area: Eurozone GDP grew by 2.2%QoQ in Q3 following a downwards revised growth rate of 2.1%QoQ in Q2, leaving activity just 0.5% below its pre-pandemic levels. However, Q3 should likely mark the peak for GDP growth, as leading indicators pertaining to Q4 suggest a slowing momentum, mostly as a result of a normalisation in economic activity after the post-lockdown bounce, increasing supply disrbutions, pandemic-related worries and inflation concerns following the recent spike in commodity prices. Rising inflationary pressures were evident in the October flash HICP releases, with ECB President Christine Lagard acknowledging at the post-October meeting press conference that inflation may remain high for a bit longer than previously expected. However, she made clear that the Central Bank remains convinced of the temporary nature of the inflation spike, and on that basis, the ECB President stressed that the conditions for a rate hike, as laid out in the forward guidance, are unlikely to be met by the end of 2022 when markets expect a first rate increase.

Emerging Economies

EM: The big picture in the emerging sphere is that economic growth recovery momentum continues but serious challenges lie ahead. An optimum point needs to be found where fiscal stimulus, leverage, growth and required capex for vaccination infrastructure could all balance. With the end of the pandemic still far from sight, overleveraged emerging economies with low vaccination rates will struggle more to return to pre-pandemic levels of GDP growth. EM's economic perspectives are also undermined by the early monetary and fiscal support withdrawal which is already evident in the LatAm and CESEE regions. Specifically, Brazil, Chile, Mexico, Peru, the Czech Republic, Hungary, Romania, Russia, and Ukraine have already entered into a tightening cycle by stepping into increasing key policy rates, amid more persistent inflationary pressures than initially anticipated. China's economic slowdown and surging commodity prices continue to weigh negatively.

CESEE: As of early November 2021, the epidemiological situation in many countries of the Central, Eastern and Southeastern Europe (CESEE) has worsened visibly on a monthly basis. Having weathered the third wave of infections, countries are now becoming increasingly confronted with a new wave – the fourth one since the beginning of the pandemic – with the number of Covid-19 infections, hospitalizations and fatalities climbing much higher in the last couple of months. Even though supply bottlenecks are no longer such a binding constraint, progress in the pace of vaccination programs remains uneven not only among the countries of the CESEE region but also between the region itself and Western Europe. On the data front, economic data releases in Q3 on to Q4 have so far been upbeat. Sentiment indicators rising close to, if not above, their pre-pandemic levels also sent an optimistic signal for the economic outlook, creating strong expectations for the growth readings of Q3. In contrast, the manufacturing hard data and surveys are increasingly pointing to supply side bottlenecks and higher energy costs constraining the production side. Finally, inflation has been staging a dynamic comeback in the past months albeit from a relatively low base, eroding the purchasing power of consumers. Inflation dynamics are largely driven by higher energy, food prices, unfavorable base effects and the economies reopening. The stronger than anticipated growth rebound both in the region and globally, the tighter labor markets and the inflation come-back compels the regional Central Banks to reassess their policy options for inflation expectations not to be de-anchored.

Special Topic

Central Banks' monetary policy response in the CESEE region

The stronger than anticipated growth rebound both in the region and globally, the tighter labor markets and the inflation come-back compels the regional Central Banks to reassess their policy options for inflation expectations not to be de-anchored. In that direction, the Central Banks of Central Eastern Europe (CEE), who were the first to initiate the tightening cycle in June, have proceeded with further monetary policy tightening demonstrating their willingness to tighten further in order to address elevated inflationary risks. During the past month, the Central Banks of Hungary (MNB) and Poland (NBP) hiked.

More specifically, the MNB hiked the policy rate by another 15bps to 1.80%, bringing the cumulative hikes at 100bps. The MPC stressed that the inflation outlook is subject to upside risks stressing that they could prove more sustained than previously expected and concluded that tightening is set to continue until risks become balanced over the policy horizon and inflation stabilizes around the mid-term inflation target of 3.0% in a sustained way. Moreover, in an unexpected move-the first hike since 2012, the NBP hiked by 40bps to 0.5% in early October in a strong reaction to inflation climbing close to a 20-year high. Furthermore, the Central Bank also raised the reserve requirement rate for banks by 150bps to 2.00%.

Having surprised the markets, tightening by 75bps to 1.50%, which is the biggest rate hike since 1997 and the second largest in the Central Bank's history, the Central Bank of the Czech Republic (CNB) is widely expected to hike rates further (50-75bps) in the MPC meeting on November 4. The guidance from CNB is even more hawkish with its leadership suggesting that there are more hikes in the pipeline but with their pace being subject to uncertainty and new data.

On the flipside, the Central Banks of Southeastern Europe (SEE region), which until very recently appeared more reluctant to discontinue their accommodative monetary policy stance, have now taken action. In Romania, the NBR hiked the key policy rate by 25bps to 1.50% surprising market consensus. The NBR is increasingly confronted with higher core pressures and pressure from CEE Central Banks tightening. In the past month, in a demonstration of flexibility, the Central Bank of Serbia (NBS) maintained the KPR at a historic low of 1% putting more emphasis on stimulating growth, but at the same time raising its average repo rate by 13 basis points to 0.24% in a first move towards tightening monetary policy. NBS looks confident that inflation will continue fluctuating within the target band (3±1.5%) in the coming period, as core inflation remains stable around 2% and the short and medium-term inflation expectations remain well-anchored.

Finally, the case of Turkey is idiosyncratic from a regional point of view. The economy has been hit by market turmoil instigated by the sudden change of leadership in the Central Bank of Turkey (CBRT) back in the spring. Under the previous leadership, the (CBRT) had hiked its key policy rate (KPR) – the 1-week repo rate – by a cumulative 875bps to 19% between November 2020 -and March 2021 in an attempt to rein in inflation expectations, helping to restore some of its lost credibility. Ever since, the CBRT left its key policy rate (KPR) – the 1-week repo rate – at 19.0% in the next MPC meetings under the leadership of the Governor Sahap Kavcioglu. However, the Central Bank of Turkey (CBRT) cut its key policy rate (KPR) – the 1-week repo rate –

by 100bps to 18.0% in late September and further by 200bps to 16% in late October. Although the decision surprised analysts' consensus, it confirmed the shift in the CBRT focus from headline inflation to core metrics developments. In early September, the Governor had warned that the "extraordinary conditions, especially due to the pandemic, increase the importance of core inflation indicators" and "core indicators excluding transitory factors emanating from areas outside monetary policy's influence are taken into account worldwide". In the press release, the CBRT attributed the recent inflation trends to "supply side actors, such as a rise in food and import prices and supply constraints, increase in administered prices and demand developments due to the reopening". From the CBRT's point of view, "these effects are due to transitory factors" prompting it to shift its focus to core inflation. On top, the Central Bank assessed that a revision in the policy stance was warranted because of the earlier higher than envisaged tightening impact on credit and domestic demand.

Macro Themes & Implications in CESEE

The region takes a hit by rallying energy prices and the resurgence of Covid-19 infections simultaneously

As of early November 2021, the epidemiological situation in many countries of the Central, Eastern and Southeastern Europe (CESEE) has worsened visibly on a monthly basis. Having weathered the third wave of infections, countries are now becoming increasingly confronted with a new wave – the fourth one since the beginning of the pandemic – with the number of Covid-19 infections, hospitalizations and fatalities climbing much higher in the last couple of months. The virus's mutations – especially the delta one – has been at the epicenter of global attention. The rise in infections has raised the red flag for the CESEE region as well, with the region confronted with a fourth wave since the beginning of autumn.

Even though supply bottlenecks are no longer such a binding constraint, progress in the pace of vaccination programs remains uneven not only among the countries of the CESEE region but also between the region itself and Western Europe. As of early November, Lithuania ranked first in the vaccination process having administered at least one dose to 75.8% of its adult population. Hungary, the first EU country to have procured vaccines from China and Russia, ranked second together with Estonia, having administered at least one dose to 69.4% of its adult population. The Czech Republic and Slovenia are next in line having administered at least one dose to 68.3% and 66.3% of their adult population respectively. In contrast, despite some progress in the past month, Bulgaria and Romania are still lagging behind with the respective figures being 27.4% and 40.3% respectively. Finally, in Ukraine and Russia, the vaccination rates (% of total population) are very low (23.6% and 38.0%) as well, necessitating immediate attention. Meanwhile, Turkey has made impressive progress in its vaccination program doubling the vaccination rate (% of total population) from 19.7% in late May to 58.7% in early September and further to 65.1% in early November.

The resurgence of infections is more pronounced in countries with low vaccination rates but countries with higher ones are starting to struggle with them as well. In any case, overall, the worsening of the epidemiological situation leaves no option to governments but to start reinstating tighter sanitary measures and restrictions on public and economic activities in order to avert more strain on the domestic public health systems. More satisfactory progress in the vaccination programs could still be a game changer as it will most probably give more room for maneuver to authorities to avoid general lockdowns as in the previous three waves, thus minimizing the socioeconomic cost of the fourth wave. However, if things get worse, then the consequences will most probably not be only economic but political as well.

On the data front, economic data releases in Q3 on to Q4 have so far been upbeat. Sentiment indicators rising close to, if not above, their pre-pandemic levels also sent an optimistic signal for the economic outlook, creating strong expectations for the growth readings of Q3. In contrast, the manufacturing hard data and surveys are increasingly pointing to supply side bottlenecks and higher energy costs constraining the production side. Even though the pandemic is still far from over and the road to normalization is full of challenges, there are grounds to remain cautiously optimistic. The better than anticipated growth performance in H1-2021 and the sustained recovery momentum in Q3-2021 has reignited optimism for the growth prospects of the broader CESEE region in 2021-2022. Provided that the vaccination programs remain on track and that the economic impact of the fourth wave and the looming energy crisis remains manageable, the CESEE region is still expected to have covered more quickly the lost ground of 2020 by the end of the year instead of 2022 initially expected.

Finally, inflation has been staging a dynamic comeback in the past months albeit from a relatively low base, eroding the purchasing power of consumers. Inflation dynamics are largely driven by higher energy, food prices, unfavorable base effects and the economies reopening. As regards the first two factors, the sensitivity of the broader region is comparatively higher than in the rest of the EU given that these factors' share in the consumption basket is higher than in Western Europe. The data announcements so far showed that, consumer prices across the region climbed further on a monthly basis in October reaching new multi-month highs. For instance, in Poland, headline inflation accelerated to 6.8% YoY in October up from 5.8% YoY in September. In Turkey, inflation reached 19.9% YoY in October up from 19.6% YoY in September up from 19.25% in August.

CESEE Markets Developments & Outlook

Bulgaria

Eurobond yields rose across all maturities, with sharp spikes being registered along the mid and long end of the curve. More specifically, the 2027-28 papers rose by 15 bps, followed by the 2030-35 papers, which rose by 14 bps each. The short end of the curve was also active, with 2023 and 2024 tenors seeing yields rising by 2 and 5 bps respectively. Local papers on the other hand saw little change within the month, with the exception of the 5-year tenor, which rose by 10 bps, triggered by the latest local paper auction. During October, the Ministry of Finance re-opened the 5- and 10-year local paper auctions, raising in total EUR 500mn, which was more than double the amount issued in September. The increased supply of local papers, triggered a sharp increase in their respective yields.

Serbia

The country's growth prospects remain robust as according to fresh estimates, GDP growth for 2021 has been upwards revised in the realm of 7.5%. Inflation is also robust. In our estimates, October inflation came in at 5.7% YoY and will most probably exceed 6% YoY in November and December. Yet, the Central Bank (NBS) remains quiet following the same mantra of major central banks worldwide that inflation is transitory. However, inflation will most probably be strong for at least 4-5 months more. In the case of Serbia, a reading of 6% YoY stands above the upper band of tolerated inflation of 3+1.5% and thus the NBS will most likely need to react in the next November meeting.

On the FI market, government bond yields rose sharply in October on the back of rising inflation. In more details, the yields increased by an average of 60bps on a monthly basis, with the 4-year, 6-year and 11-year RSD denominated bond yields trading at 3.00%, 3.40% and 4.00% at the end of October.

Dinar has seen some depreciation pressure as SERBG's yields are marching higher and foreign bond holders are reducing their positions. However, these pressures were not reflected in the FX rate because the NBS keeps intervening on the spot market to meet needs. The FX rate remained resilient and is still anchored to the 117.55-59 area.

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Markets View

Foreign Exchange

EUR/USD: The pair has consolidated at the 1.16 level towards the end of the previous month. While market positioning remains long USD anticipating the Fed to come across more hawkish than expected in the November's meeting, the faster than expected rate hikes seem to be priced in at the moment. Looking forward we expect the pair to continue trading at the level of 1.15-1.1750 as we are approaching year-end and market participants may seem reluctant to take any extra risks.

GBP/USD: The pair retained a soft undertone around 1.3660. Looking forward, we expect it to continue hovering around 1.3610/1.3731 as we move towards the end of the year. Firstly, it's pretty much a done deal that the Fed will announce QE tapering, and could perhaps open the door towards rate hikes in 2022. On the flipside, the market has been gradually paring back expectations of a BoE rate hike. Implied volatility of the pair remains relatively high at the level of 7%. We expect it to return at the level of 6% after the Fed/BoE rate decisions later this month.

Rates

EU: Short term interest rates increased for the third consecutive month, with the 10y swap trading at 30bps up from 20bps in the previous month. The slope of the curve decreased sharply, with 5s-30s trading at 30bps down from 70bps at the beginning of the month. Looking forward, we expect the rates to remain volatile and the curve to continue bear flattering as elevated inflation may bring tapering and interest rate hikes closer.

US: US rates increased in October, with the 10y swap rate trading at 160bps, up from 148bps at the beginning of the month. The slope of the curve decreased sharply, with 5s-30s trading at 50bps down from 78bps at the beginning of the month. Looking forward we expect US rates to remain volatile at these levels until hawkish talk from the policy makers verifies the interest rate hikes taking place earlier than expected.

Emerging Markets credit

In EM, the underlying inflation trends are rising across all regions and inflation prints continue to surprise to the upside, particularly outside Asia, forcing most of the central banks to an accelerated tightening policy.

On the other hand, US rates appear to be anchored, especially in the long end. The EMBI Global Index closed at 326 bps at the end of September, just 2 bps higher on the month. In CEEMEA, Turkish assets suffered some losses after President Erdogan ousted three interest-rate setting committee members. Subsequently, the CBRT slashed its policy rate by 200bps to 16%, twice as much as expected. The Russian central bank surprised with a larger than expected 75bps hike to 7.50%. In LATAM spreads traded mixed, but modestly changed, while the focus this month will turn to the presidential elections in Chile, where the race is polarized between Kast and Boric. If the latter wins the race, we should expect this to be moderately credit negative. In Asia, spreads ended little-changed with slowing China growth remaining a major concern. We remain cautious on EM fixed income, looking into investment opportunities depending on the path of individual hiking cycles and the DM core rates trend.

Corporate credit

EUR IG cash corporate spreads were marginally tighter in October, after widening a few basis points around the middle of the month. Spreads on most grades and sectors ended -4/-5bps tighter, as new supply was mostly well received. Moves in rates did not affect credit too much, while equities' strong recovery in the second half of the month was also supportive. CDS Indices spreads were unchanged on a roll adjusted basis, marginally underperforming cash. Below IG corporate spreads decompressed versus IG, with High Yield underperforming Investment Grade. ECB stance remains supportive for Credit and coupled with significant cash balances willing to buy the dip. Sector-wise, in EUR IG, Financials were -3.5bps tighter, Real Estate +1.5bps wider, Oil & Gas -6.5bps tighter, Health Care -5.5bps tighter, Telecoms -2.5bps tighter, Industrials -5.5bps tighter, Consumer Goods -6.0bps tighter, Utilities -6.5bps tighter, Technology -5.5bps tighter and Basic Materials -5.0bps tighter. US IG names spread were unchanged to a few basis points wider in October. Financials were +1.5bps wider, Real Estate +7bps wider, Oil & Gas was unchanged, Healthcare +1.5bps wider, Telecoms +4bps wider, Technology +3bps wider, Industrials, Consumer Goods and Utilities were unchanged, while Basic Materials were +4.5bps wider.

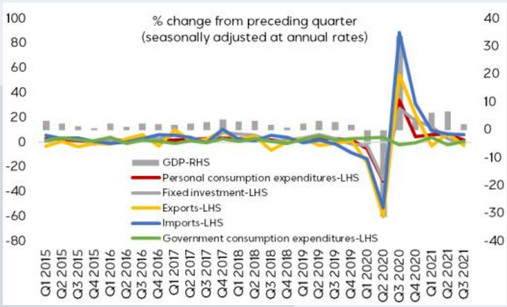
Rating-wise, EUR IG spreads in BBB was -4.0bps tighter, in A -5.0bps, in AA -5.0bps, and in AAA -5.5bps. In the EUR HY universe CCC was +50bps, B grade was +40bps wider, while BB was +3.0bps wider. Rating-wise in US IG the BBB rating grade was +2.5 bps wider, while A and AA grades were unchanged. AAAs +1bps were wider. Technical for cash continues to remain strong, especially so in EUR, with supply in general well received. US tapering initiation in Q4, coupled with inflation persistence and progressively higher rates, is expected to push spreads moderately wider in the medium term. ECB remains supportive, but the tapering discussion is gaining focus as well. Therefore, we expect both US and EUR credit spreads to move progressively wider in the short to medium term, as some market segments need to reprice to new growth/inflation rates levels.

USA

Signs that the Q3 soft patch is unlikely to carry into Q4

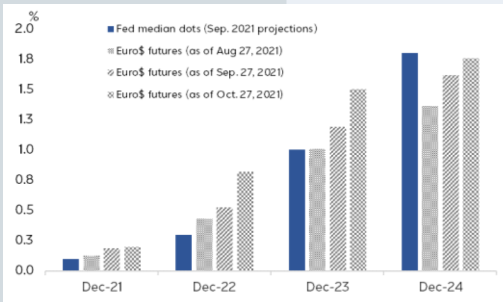
US GDP grew at an annual rate of 2.0%QoQ in Q3, the slowest pace since Q2 2020 and a sharp slowdown from 6.7% in the prior quarter. The deceleration was mainly driven by personal consumption, which increased by 1.6%, sharply lower compared to a rise of 12.0% in Q2 amid fading stimulus support. Supply-chain disruptions had also a negative impact, with spending on goods falling by 9.2% led by a sharp drop in durables consumption (-26.2%), while services spending growth slowed to 7.9% from 11.5% in Q2 amid fears over Covid-19 infection risks. Elsewhere, net exports were a drag (substracting 1.1pp), while fixed nvestment made a modest negative contribution (-0.1pp) as a decline in residential investment (-7.7%) on the back of supply bottlencks offset a small rise in business investment (1.8%). In fact, most of the growth in Q3 GDP came from a faster stockbuilding, as inventories contracted for the third consecutive quarter but at a slower pace than in Q2 (adding 2.1pp after subtracting 1.3pp in Q2 GDP). However, recent high frequency and sentment indicators support optimism that the soft patch of activty in Q3 has come to an end and economic growth is likely to regain momentum in Q4. Household spending appears to have reaccelerated, with retail sales rising in September for the second consecutive month (+0.7%MoM), following August's upwards revised figure (+0.2pp to +0.9%MoM). Meanwhile, the labor market continues to recover with average hourly earnings remaining on a fairly steady rising trend (seven-month high of 4.6%YoY in September) that is expected to keep consumer spending on a solid trajectory in the coming months. In addition, the Composite PMI improved to a three-month peak in October (57.3), while most of recent data on home sales have surprised to the upside, pointing to a rebound in activity after a notable slowdown earlier this year. On the inflation front, pressures remain elevated (September's CPI at 5.4%YoY), while uncertainty is unusually high amid continued volatility in the CPI components affected by supply chain issues (e.g. airline fares, vehicle prices) and a sharp acceleration in rental inflation (accounting for around one third of the total basket). That said, an imminent Fed tapering announcement is widely expected, with investors now anticipating more than two rate hikes by end-December 2022 compared to less than one hike a few weeks ago.

Figure 3: Sharp slowdown in Q3 GDP on a pronounced deceleration in personal consumption



Source: BEA, Eurobank Research

Figure 4: Fed rate tightening expectations on an upward trajectory



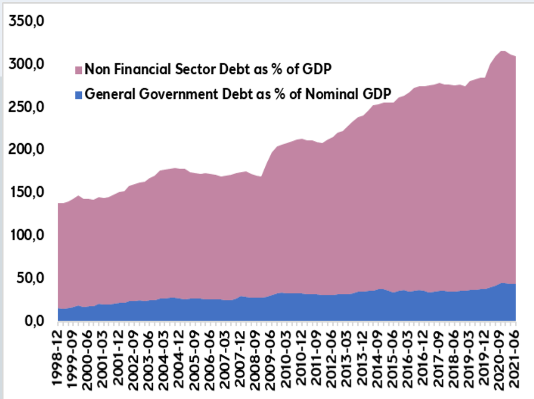
Source: Bloomberg, Eurobank Research

China

The Q3 GDP print came at 4.9% YoY from 7.4% previously, revealing a sizable loss of steam in the economy

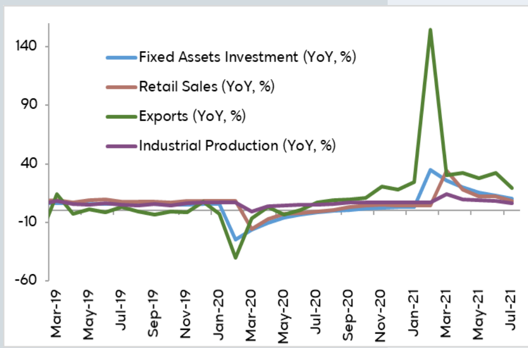
Q3 GDP print revealed a sizable loss of steam in the economy as real GDP growth eased to 4.9% YoY in Q3 from 7.4% YoY and 18.3% in the previous quarters respectively. The reading released in mid-October came along with additional hard and soft data with the majority of them suggesting that the cooling may not have ended. Indicatively, while retail sales picked up to 4.4% YoY in September from 2.5% YoY in August, fixed assets investments, industrial output and property investment came in weaker in September compared to August and below the market consensus as well. Additionally, the official manufacturing PMI kept moderating in October since March and fell below the contraction benchmark of 50, approaching January 2020 lows. In an effort to understand the drivers behind the economic slowdown -evident since July- we conclude that the loss of steam is, among others, broadly policy driven in the sense that it coincides with a reshuffling in the economic priorities of the policy agenda. Remember that for 2021, the government has set the bar low for the GDP growth target as it has decided to accelerate necessary reforms in the economy. The said policy pledge was kept, if we take into account the ongoing sectoral crackdowns in the technology, educational and real estate sectors of the economy, through which the government under Xi Jinping's stick attempts to enhance further market and competition dynamics. An additional figure that drew our attention during the past month was the PPI spike to 10.7%, which is a more than a 25-year high and reveals the stretched conditions that prevail in the economy from the supply side. Either the production constraints stem from energy shortages or the iron ore curbs (in order to achieve the 'blue skies' target during the coming Winter Olympic games), the short-term outlook for the economy is getting more uncertain as fears over a PPI pass-through to the headline inflation along with the slowdown of the economic activity could pave the way for stagflation in the medium-term, even temporarily.

Figure 5: Private debt continues to surge in 2021 casting shadows on the financial stability..



Source: National Institution for Finance and Development, Eurobank Research

Figure 6:...with the economy passing to a cooling mode since summer



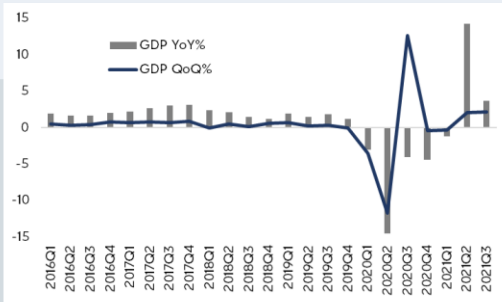
Source: Bloomberg, Eurobank Research

Euro area

GDP growth momentum has likely peaked in Q3, mounting inflationary pressures

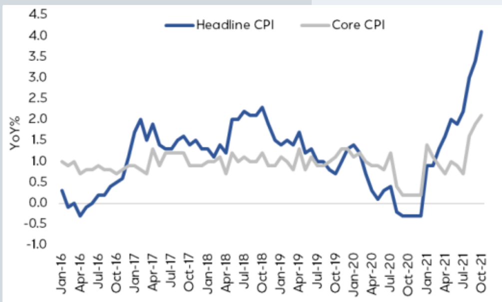
Eurozone GDP grew by 2.2%QoQ in Q3 following a downwards revised growth rate of 2.1%QoQ in Q2 (from 2.2%QoQ previously), leaving activity just 0.5% below its pre-pandemic level. Whereas the details of the expenditure components have yet to be published (due on December 7), country-level GDP growth data suggest that household consumption was probably the main growth driver, though it has somewhat eased after the post-reopeniong bounce in Q2. However, Q3 should likely mark the peak for GDP growth, as leading indicators pertaining to Q4 suggest a slowing momentum, mostly as a result of a normalisation in economic activity after the post-lockdown bounce, increasing supply disrbutions, pandemic-related worries and mounting inflation concerns following the recent spike in commodity prices. In support of the above, the Composite PMI fell in October for the third consecutive month coming in at a six-month low of 54.3, but still above its long-run average, consistent with a solid pace of growth. The renewed decline was led by the services index which dropped from 56.4 to a six-month low of 54.7, while the manufacturing index held up fairly strongly edging down by 0.3pt to 58.3. Composite input (+2.2pts to 73.1) and output prices (+1.2pt to 60.3) continued to increase forcefully, pointing to ongoing high inflationary pressures. Rising prices were also evident in the October flash HICP releases, with headline accelerating to 4.1%YoY, the highest level since mid-2008, largely driven by a 23.5%YoY gain in energy price inflation, and a rise in core CPI to a 19-year peak of 2.1%YoY, mainly on the back of accelerating services inflation. Speaking on inflation at the post-October meeting press conference, ECB President Christine Lagarde acknowledged that inflation may remain high for a bit longer than previously expected, but made clear that the Central Bank remains convinced of the temporary nature of the inflation spike. On that basis, the ECB President stressed that the conditions for a rate hike, as laid out in the forward guidance, are unlikely to be met by the end of 2022 when markets expect a first rate increase, and confirmed that key future monetary policy decisions – including the PEPP, the APP and the LTROs – are going to be announced at the next meeting scheduled for 16 December.

Figure 7: Q3 likely marks the peak for GDP growth



Source: Eurostat, Eurobank Research

Figure 8 : Mounting inflationary pressures in the EA



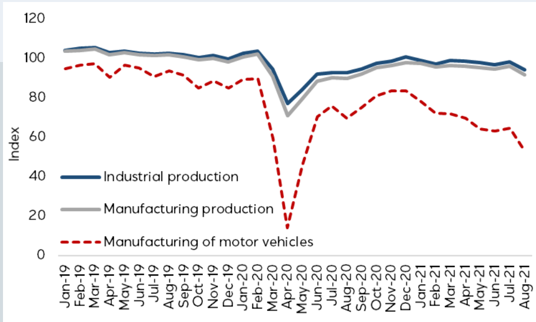
Source: Eurostat, Eurobank Research

Germany

Supply bottlenecks slow economic recovery massively

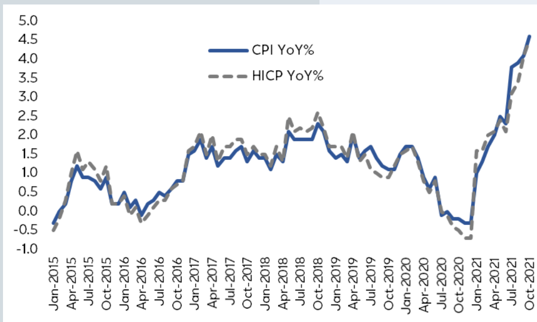
According to the first provisional estimate, German GDP grew by a slightly lower-than-expected 1.8%QoQ in Q3 following an upwards revised growth rate of 1.9%QoQ in Q2 (vs. 1.6%QoQ previously) and an upwards revised contraction of -1.9%QoQ in Q1 (vs. -2.0%QoQ previously). According to the Federal Statistical Office, growth was mainly driven by higher final consumption expenditure, as a rising rate of vaccinated people and a sharp decline in Covid-19 cases had allowed a broad reopening of the economy in early summer. Strong employment gains have also supported personal consumption, as the labor market continues to recover, remaining stubbornly undeterred to massive supply-chain bottlenecks (October's unemployment rate dropped by a further 0.1pp to 5.4%, the lowest level since March 2020, while vacancies have re-approached March 2019 record highs). Although we have to wait until 25 November for the breakdown of the Q3 GDP report, it is highly likely that supply shortages, which have caused IP to decline sharply in recent months, was a major driver behind the relative weakness of Q3 GDP growth. According to the most recent data, IP dropped by a hefty 4.0%MoM in August, the sixth monthly fall so far this year, leaving output 9% below the Feb-20 pre-pandemic level. Most of the renewed weakness came from a 17.5%MoM decline in the automotive production, with the respective index approaching levels last seen in the midst of the Global Financial Crisis, amid lack of semiconductors and chips. Looking ahead, supply-side issues are expected to remain a drag on the German recovery in Q4, as suggested by the third consecutive monthly decline in the flash October Composite PMI (to 52.0) and the fourth consecutive decline in the October IFO business climate index (to 97.7). Besides persistent supply shortages, worries over a slowdown in China spreading to other parts of Asia, the sharp increase in Covid-19 cases in recent weeks, the nearly completed catch-up process in the services sector after the reopening of the economy and soaring price pressures mainly driven by increasing commodity costs and noticeable supply bottlenecks, also bode particularly ill for Q4 GDP growth. We see German economic growth slowing massively to near 0.2%QoQ at the turn of the year, with growth rate close to 3.0% for the whole year.

Figure 9: Supply disruptions continue to weigh on IP, particularly on the auto sector



Source: Federal Statistical Office, Eurobank Research

Figure 10: Both CPI and the HICP rates above 4.0%YoY on increasing commodity costs



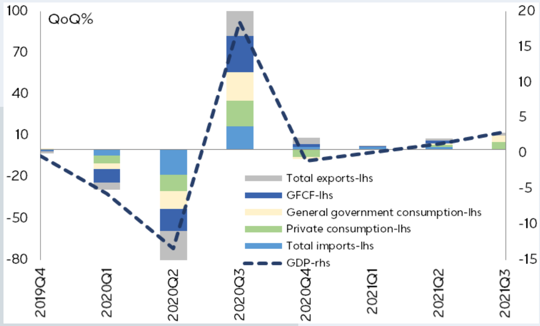
Source: Federal Statistical Office, Eurobank Research

France

GDP returned to almost pre-pandemic levels

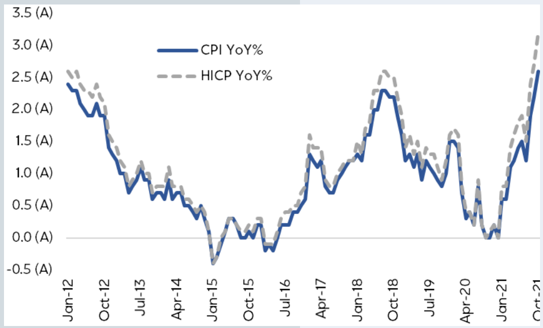
France's GDP rose by a higher-than-expected 3.0%QoQ in Q3, up from 1.3%QoQ in Q2 (revised upwards from 1.1%QoQ previously). The rebound took France's output within distance from its Q4 2019 pre-pandemic level, narrowing the relative gap to just -0.1% from -3.0% in Q2. The main growth driver was private consumption (+5.0%QoQ vs. 1.3%QoQ in Q2), as the further lifting of activity restrictions in July, following the third national lockdown in April, led to a significant boost in services activity, especially accommodation and restaurants (+43.4%QoQ). Public consumption also surprised to the upside (+4.5%QoQ vs. 1.0%QoQ in Q2), while on the flipside, gross fixed capital formation contracted (-0.1%QoQ after +2.5%QoQ in Q2), with overall domestic demand contributing 3.3pp to Q3 GDP growth. Net exports were also a growth driver (+0.6pp), as growth in exports (+2.3%QoQ) that was particularly supported by tourism outpaced growth in imports (+0.1%QoQ). In contrast, stock building had a negative impact (-0.9pp), reflecting weakness in manufacturing (-0.6%QoQ) and construction (-1.0%QoQ) probably due to significant supply bottlenecks. Looking ahead to Q4, recent surveys point to a pronounced deceleration in GDP growth, probably due to some normalization after the reopening boost. Meanwhile, supply side issues are far from resolved, continuing to weigh on manufacturing production, while the recent surge in energy prices, which pushed inflation rates further higher, will likely weigh on households' purchasing power, in spite of the government's announcement of measures worth €3.8bn (1.5% of 2019 GDP) aiming to curb the increase in energy costs. Supporting the above, France's flash Composite PMI fell by a further 0.6pts in October, the fourth consecutive monthly decline, to a six-month low of 54.7, dragged by manufacturing as global supply issues continued to have an impact. Furthermore, the INSEE consumer confidence index fell by 2pts to a five-month trough of 99 in October amid rising inflation concerns, giving back most of September's 3pts gain. In spite of the expected slowdown in Q4, economic growth is anticipated to remain reasonably solid thanks to the improving labor market and the ongoing recovery in the services sector, which is expected to extend into Q4 (October's PMI services +0.4pt to 56.6). For the whole year, we pencil real GDP growth at 6.1%YoY, before slowing to 4.1% in 2022 on likely prolonged supply side constraints.

Figure 11: Personal consumption was the main driver behind the Q3 GDP growth bounce



Source: INSEE, Eurobank Research

Figure 12: Higher prices pose a risk for the consumption outlook



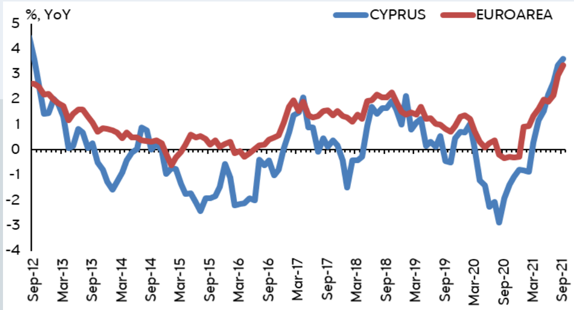
Source: INSEE, Eurobank Research

Cyprus

Draft Budget Plan of 2022: a necessary step towards fiscal consolidation

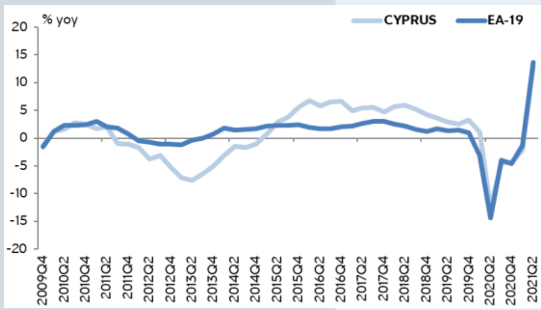
As of late-October, despite the success of the vaccination program, the epidemiological situation in Cyprus remained broadly unchanged on a monthly basis but improved compared to late July when the number of new Covid-19 cases in the fourth wave of infections peaked. The latest ECDC data demonstrate that 81.4% of the adult population vs. 80.2% in EU/EEA has received at least the first vaccine dose and 80.3% vs. 75.2% in EU/EEA has been fully vaccinated. Factoring in the very good performance in H1-2021 underpinned by favorable base effects from phasing out last year's restrictions and strong sentiment improvement, real GDP is projected to recoup all past year output losses in 2021. The Economic Sentiment Indicator (ESI) reached in October its highest level since the pandemic start. The ESI improved further by 1.6 points to 106.0 in October up from 104.4 in September and 105.0 in June, which was the previous high. The Employment Expectations Indicator (EEI) jumped by 3.8 points to 107.0. The rise in the ESI index was broad-based with services and construction posting the biggest gains, while consumer confidence was the only component to post a small decline. The increased confidence in services mirrors the improved assessment of past performance and upward revision of future demand expectations. On the fiscal front, the government submitted the new budget draft to the parliament and the European Commission. The main macroeconomic parameters of the new budget plan foresee: 1) real GDP growth to expand by 4.0% in 2022 down from a projected 5.5% YoY in 2021 and -5.1% in 2020. 2) inflation to remain at elevated levels at 1.5% in 2022 compared to a projected 2.0% in 2020. 3) Unemployment to decline to 6.5% in 2022 down from a projected 7.5% in 2019. The budget targets a general government primary surplus of 0.7% of GDP and an overall deficit and -1.1% of GDP in 2022 compared to a projected 3.0% and 3.8% respectively in 2021. Accordingly, the public debt to GDP ratio is expected to decline to 101.0% of GDP in 2022 down from a projected 108% in 2021 and 120% in 2020. In our view, the budget targets are prudent and constitute the necessary first step in the right direction of fiscal consolidation. However, we do note that uncertainties with respect to the pandemic are still relatively high and the assumptions upon which the budget is based could be refuted. On top, political risks stemming from the lack of parliamentary majority by the ruling party DISY continue to exist.

Figure 13: HICP inflation in positive territory since March 2021



Source: Eurostat, Eurobank Research

Figure 14: The economy rebounded strongly on an annual basis in Q2-2021 in line with EA-19

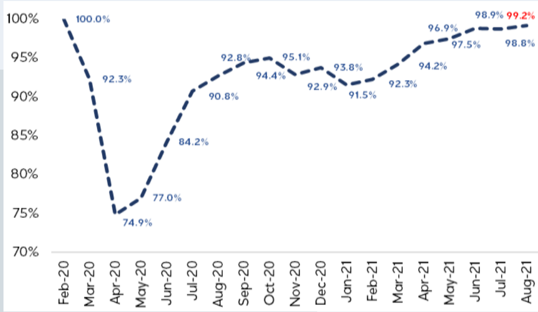


Source: Eurostat, Eurobank Research

UK

Growth momentum is slowing amid supply side constraints

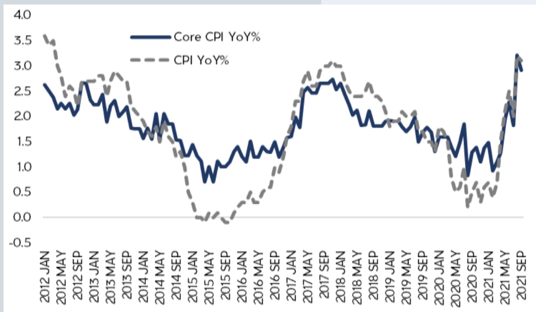
Figure 15: UK GDP edged up in August to c. 99% of its pre-pandemic level



Source: ONS, Eurobank Research

UK real GDP rebounded in August, rising by 0.4%MoM following a downwards revised -0.1%MoM growth rate in July (vs. +0.1%MoM initially), but still below June when it rose by an upward revised 1.4%MoM (vs. +0.6%MoM initially). Growth was driven by services (+0.3%MoM) following the lifting of the remaining activity restrictions on 19 July, while industrial production also provided a meaningful contribution (+0.8%MoM), mainly supported by manufacturing (+0.5%MoM) on the back of a hefty increase in the motor vehicle production (+6.6%MoM), as headwinds from the global microchip shortage appear to have eased slightly. On the flipside, construction output contracted for the second month in a row (-0.2%MoM) pressured by the ongoing shortage of materials and increased input costs. After incorporating in the monthly GDP data the pronounced upward revision to the Q2 GDP level (5.5%QoQ vs. 4.8%QoQ initially), that was announced in late September, the August GDP print has left output just 0.8% below its Feb-2020 pre-pandemic level, pointing to a notable slowdown in activity looking forward as the economy edges closer to “normal”. In support of the above, several activity indicators have disappointed of late (e.g., PMIs, GfK consumer confidence), reflecting concerns about ongoing supply-side constraints (in both inputs and labor), and rising cost pressures mostly driven by increased gas prices that coincided with a less supportive fiscal policy (higher taxes, end of the furlough scheme and the weekly universal credit payment). In spite of expectations for weaker growth in the remainder of the year, we pencil real GDP growth at 6.8% for 2021 following the big upward revision to GDP growth in Q2, in line with the IMF’s forecast (Oct. 2021). However, the looming growth weakness seems unlikely to stop the BoE from raising rates. Recent comments from BoE officials continued to sound hawkish, indicating a growing risk that the BoE could hike interest rates by the end of this year amid concerns over the risk of higher inflation becoming embedded into inflation expectations (the 10-yr breakeven moved above 4% in mid-October for the first time in more than 10 years), as labour market tightness persists and inflation is likely to remain elevated for longer on the back of lingering supply-side shortages and soaring wholesale gas and electricity prices.

Figure 16: Inflation likely to rise further above target if energy prices remain elevated



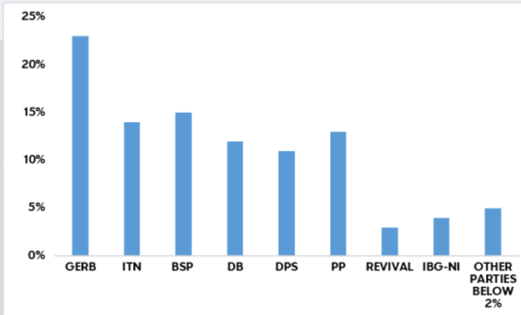
Source: ONS, Eurobank Research

Bulgaria

The submission of the recovery plan unlocks growth potential in 2022, but Q4 rides the worst Covid-19 wave since the beginning of the pandemic

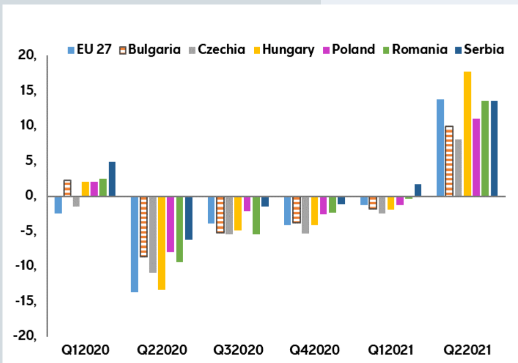
October was a month filled with a plethora of GDP forecast releases for Bulgaria by international financial institutions and local authorities. The World Bank and the Ministry of Finance stepped forward with brave upward revisions, expecting GDP growth in 2021 to come in at 3.7% (vs 3.2% previously) and 4.0% (vs 3.5% previously) respectively. In the World Economic Outlook, the IMF kept its forecast almost unchanged at 4.5% (from 4.4% in spring), while in its latest macroeconomic forecast, the Bulgarian National Bank (BNB) reduced its projection slightly to 3.9% from 4.1% in the summer. The average projection of the aforementioned 4 prints stands at 4.0%, coinciding with the H1-2021 economic performance and stands little below our full year projection at 4.2%. With elections ante portas (14 November), the caretaker government, after almost 6 months in place, submitted the country's recovery and resilience plan worth EUR6.6bn to the European Commission (EC). The plan sets the ground for the green and digital transformation of the economy up to 2027 is expected to mobilise an additional amount of ca EUR4bn of new investments throughout the programmatic period. The submission of the plan is a pivotal development for the medium term outlook of the economy, but will not have any material effect on the 2021 economic performance. The implementation of the plan is expected to unlock growth potential by attracting investments and, presumably, this is the rationale behind the 2022 GDP growth jump predicted by both the Ministry of Finance and the BNB in 2022 (4.9% and 4.6% respectively). Hard data in September sent mixed signals on the current economic status of the country (retail sales inched down, unemployment slightly declined and industrial production surged on a yearly basis), while the current pandemic status leaves limited room for optimism as we approach the year end; Bulgaria, which remains the EU country with the lowest vaccination rate, marked a sad and worrying record high on October 26 since March 2020, in both daily infections (5,863) and daily fatal incidents (243). The current epidemiological situation has already led to the reinforcement of restrictive measures, which will take their toll on the economy in the last quarter.

Figure 17: Latest polls continue to point to a fragmented parliament...



Source: Politico, Eurobank Research

Figure 18: ...with the political instability weighing on the economic performance



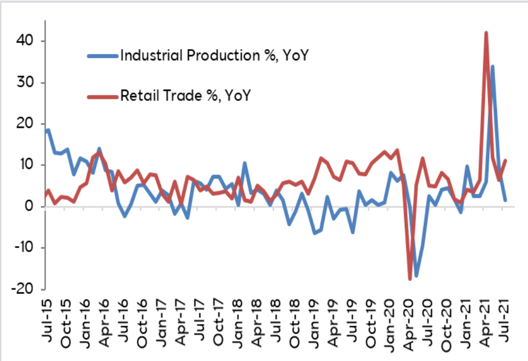
Source: Eurostat Eurobank Research

Serbia

NBS first move towards policy tightening

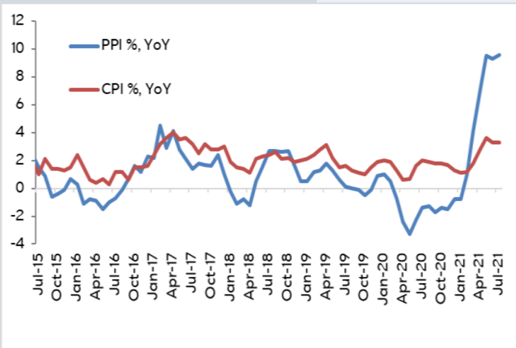
According to the flash estimate, real GDP expanded by 7.4% YoY in Q3, losing some steam compared to the 13.7% YoY print in the previous quarter. The slowdown was anticipated given that Q2 performance received strong support from favorable base effect from last year's lockdown. Assuming that the detailed data on the national accounts for Q3 due in November 30 verify the current flash estimate, the GDP growth for the first nine months of the year will reach 7.5% YoY, rendering the official target of 7% for 2021 set by the Ministry of Finance achievable, subject to a print in Q4 in the area of 6% YoY. Economic activity is underpinned by high public infrastructure investments and the impact from prolonged fiscal support measures, which fuel private consumption, and a better than expected performance in services sectors such as tourism, transport and retail trade. The GDP over performance is also reflected in the fiscal metrics. Only recently, the government in the second budget revision this year, cut the 2021 budget deficit target to 4.9% of GDP from 6.9% previously, reflecting revenue outperformance and higher capital spending. In the Fiscal Council's view, the budget deficit is still high but nevertheless almost 3.5% of GDP are extraordinary measures related to the pandemic crisis. In addition, the Fiscal Council recommended the government target a fiscal deficit of around 2% of GDP in 2022, down from 3% of GDP initially foreseen in the Fiscal Strategy, thus leaving enough space for new support measures if needed. In the past month, in a demonstration of flexibility in its monetary policy, the NBS maintained the KPR at the historic low of 1% putting more emphasis on stimulating growth, but at the same time raising its average repo rate by 13 basis points to 0.24% in a first move towards tightening monetary policy. The NBS highlighted elevated inflationary pressures resulting from last year's low base, higher energy prices and supply side bottlenecks in global markets, factors that monetary policy cannot affect. NBS appears confident that inflation will continue fluctuating within the target band (3±1.5%) in the coming period, between 3.5% and 4.0%, with the pressure continuing to surge in the last quarter as core inflation remains stable around 2% and the short and medium-term private sector inflation expectations remain well-anchored.

Figure 19: Economy remains on track but with some loss of steam on the supply side...



Source: Bloomberg, Eurobank Research

Figure 20: while the inflationary pressures on the supply side show limited pass through so far to the headline inflation



Source: Bloomberg Eurobank Research

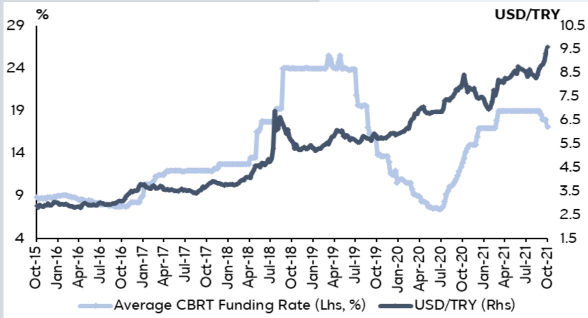
Turkey

Turkish lira under further pressure on new surprise rate cut

The Central Bank of Turkey (CBRT) cut its key policy rate (KPR) – the 1-week repo rate – by another 200bps to 16.0% in late October. The decision surprised analysts' consensus, who didn't expect more aggressive monetary easing taking into account the last MPC decision in late September. The Bloomberg survey participants were split between a 50bps and 100bps cut.

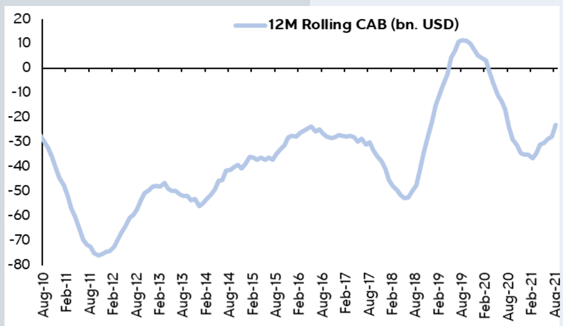
In the accompanying press release, the CBRT reiterated its view that the recent inflation spike is driven by "supply side factors, such as a rise in food and import prices, especially in energy, and supply constraints, increase in administered prices and demand developments due to the reopening". From the CBRT's point of view, "these effects are due to transitory factors" prompting it to shift its focus to core inflation. On top, the Central Bank assessed that a further revision in the policy stance was warranted because of the earlier higher than envisaged tightening impact on credit and domestic demand. However, the Central Bank assessed that "till the end of the year, supply-side transitory factors leave limited room for the downward adjustment to the policy rate". In our view, the rate cut is unjustified given the headwinds the economy is confronted with and undermines the disinflation process pushing real rates in further negative territory, thus magnifying downside risks for Turkish lira assets. The cut was also interpreted as fresh evidence of political interference mirroring President Erdogan's strong public support for low interest rates aimed at boosting economic activity. From the latter point of view, the move occurred in the aftermath of the sudden removal of Deputy Governors Semih Tumen and Ugur Namik along with MPC member Abdullah Yavas from their posts. Finally, we need to point out that the CBRT keeps reducing rates at a time when all major Central Banks around the world are tightening or looking for a window of opportunity to tighten their policies. Headline inflation accelerated to a two-year high at 19.6% YoY in September vs 19.25% YoY in August up from 19.0% YoY in July, well above the revised year-end target of 12.4% in 2021 and the mid-term target of 5%. The print was in line with analysts' consensus expectations (Actual: +1.1% MoM). In an illustration of the elevated cost-led price pressures, PPI inched down to 44.0% YoY in September compared to 45.5% YoY in August. Unsurprisingly, the lira reached a new record low of 9.85/$ in late October, trading currently at 9.59/$ down by 27.6% year-to-date, while the 10Y government bond yield climbed to 19.5%, at the highest level since late March.

Figure 21: Lira came under strong depreciation pressure on concerns for CBRT independence



Source: Bloomberg, Eurobank Research

Figure 22: Macroeconomic imbalances have been widening since mid-2019



Source: National Authorities, Eurobank Research

Eurobank

Eurobank Research

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI (YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f	2020	2021f	2022f
World	-3.2	5.9	4.5	3.2	3.6	3.3									
Advanced Economies															
USA	-3.4	6.0	4.0	1.2	4.4	3.2	8.1	5.5	4.2	-3.0	-3.5	-3.3	-15.6	-13.5	-6.5
Eurozone	-6.4	4.9	4.3	0.3	2.3	1.9	7.9	7.9	7.7	2.0	2.6	2.5	-7.2	-7.5	-4.0
Germany	-4.6	2.9	4.5	0.4	3.0	2.1	5.9	5.7	5.2	6.2	6.8	6.6	-4.3	-6.0	-2.5
France	-7.9	6.1	4.1	0.5	1.9	1.7	8.0	8.0	8.2	-1.9	-1.5	-1.9	-9.1	-8.5	-5.0
Periphery															
Cyprus	-5.1	5.5	4.0	-1.1	1.8	1.5	7.8	7.5	6.7	-11.4	-10.0	-8.0	-5.7	-5.0	-2.5
Italy	-8.9	6.1	4.3	-0.2	1.8	1.6	9.3	10.0	9.5	3.2	3.2	2.9	-9.5	-10.5	-9.5
Spain	-10.8	5.6	5.8	-0.3	2.5	1.8	15.5	14.8	14.2	0.7	1.4	1.9	-11.0	-8.4	-5.5
Portugal	-8.4	4.4	4.8	-0.1	0.9	1.3	7.0	7.0	6.7	-1.3	-0.7	-0.3	-5.7	-5.0	-3.4
UK	-9.7	6.8	5.2	0.9	2.4	3.2	4.4	4.8	4.7	-3.5	-3.2	-3.6	-12.7	-9.6	-4.6
Japan	-4.7	2.4	2.6	0.0	-0.2	0.5	2.8	2.9	2.7	3.2	3.5	3.5	-10.1	-8.5	-5.5
Emerging Economies															
BRICs															
Brazil	-4.0	4.7	2.5	3.2	3.8	3.5	13.4	14.4	13.4	-0.8	-1.2	-1.4	-14.9	-7.2	-6.5
China	2.3	8.0	5.5	2.5	1.5	2.3	4.2	3.9	3.6	1.5	1.7	1.3	-6.9	-5.8	-4.3
India	-7.7	9.5	6.9	6.2	5.5	4.8		*NA*		0.9	-0.8	-1.2	-9.3	-6.8	-6.0
Russia	-3.0	3.5	2.5	3.4	5.5	4.0	5.8	5.5	5.0	2.2	3.5	3.0	-4.3	-1.5	-0.7
CESEE															
Bulgaria	-4.2	4.2	4.1	1.7	2.5	2.3	5.1	4.8	4.5	1.2	2.0	1.5	-3.0	-4.4	-2.5
Romania	-3.9	8.0	6.0	2.3	4.0	3.5	5.0	5.3	4.8	-5.0	-6.0	-5.5	-9.0	-8.0	-6.0
Serbia	-1.0	6.3	4.5	1.6	2.8	2.2	9.7	12.8	10.4	-4.3	-4.5	-4.7	-8.1	-6.9	-3.0
Turkey	1.8	9.0	4.0	12.3	17.0	15.0	13.7	12.5	12.0	-5.5	-3.5	-2.5	-4.5	-4.0	-3.5

Source: EU Commission, IMF, OECD, Bloomberg, Eurobank Research

Eurobank Fixed Income Forecasts

	Current	December 2021	March 2022	June 2022	September 2022
USA					
Fed Funds Rate	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.05-0.30%
1 m Libor	0.08%	0.10%	0.12%	0.15%	0.19%
3m Libor	0.14%	0.18%	0.21%	0.26%	0.33%
2yr Notes	0.47%	0.38%	0.47%	0.56%	0.67%
10 yr Bonds	1.55%	1.68%	1.80%	1.90%	1.98%
Eurozone					
Refi Rate	0.00%	0.00%	0.00%	0.00%	0.00%
3m Euribor	-0.56%	-0.51%	-0.51%	-0.50%	-0.48%
2yr Bunds	-0.65%	-0.67%	-0.66%	-0.62%	-0.61%
10yr Bunds	-0.14%	-0.18%	-0.10%	-0.04%	0.03%
UK					
Repo Rate	0.10%	0.20%	0.25%	0.35%	0.35%
3m	0.24%	0.12%	0.18%	0.27%	0.33%
10-yr Gilt	1.03%	1.11%	1.20%	1.27%	1.33%
Switzerland					
3m Libor Target	-0.77%	-0.74%	-0.74%	-0.74%	-0.74%
10-yr Bond	-0.10%	-0.12%	-0.06%	-0.01%	0.03%

Source: Bloomberg (market implied forecasts)

Eurobank

Eurobank Research

Research Team

Dr. Tasos Anastasatos | Group Chief Economist
tanastasatos@eurobank.gr | + 30 214 40 59 706

Anna Dimitriadou
Economic Analyst
andimitriadou@eurobank.gr
+ 30 210 37 18 793

Ioannis Gkionis
Senior Economist
igkionis@eurobank.gr
+ 30 214 40 59 707

Dr. Stylianos Gogos
Research Economist
sgogos@eurobank.gr
+ 30 210 37 18 733

Maria Kasola
Economic Analyst
mkasola@eurobank.gr
+ 30 210 33 18 708

Olga Kosma
Research Economist
okosma@eurobank.gr
+ 30 210 37 18 728

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr
+ 30 210 37 18 991

Dr. Theodoros Rapanos
Economic Analyst
v-trapanos@eurobank.gr
+ 30 214 40 59 711

Dr. Theodoros Stamatiou
Senior Economist
tstamatiou@eurobank.gr
+ 30 214 40 59 708

Elia Tsiampaou
Economic Analyst
etsiampaou@eurobank.gr
+ 30 214 40 59 712

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