

### KEY UPCOMING DATA & EVENTS THIS WEEK

#### GLOBAL

- June 22: OPEC meeting

#### US

- June 19
  - Housing starts (May)
  - Building permits (May)
- June 20
  - Current account balance (Q1)
  - Existing home sales (May)
- June 21
  - CB leading indicators (May)
  - Philly Fed (Jun)

#### EUROZONE

- June 18: ECB Forum on Central Banking
- June 21
  - ECB President speaks
  - Eurogroup
- June 22
  - Services PMI (Jun)
  - Manufacturing PMI (Jun)

#### UK

- June 21
  - BoE policy announcement
  - BoE Governor Carney speaks

#### GREECE

- June 20: Current account deficit (Apr)

#### SEE

##### BULGARIA

- June 19: Current account deficit (Apr)

##### ROMANIA

- June 18: T-bonds auction
- June 21: T-bonds auction

##### SERBIA

- June 19: Current account deficit (Apr)

*'Source: Reuters, Bloomberg, Eurobank Research*

## HIGHLIGHTS

### WORLD ECONOMIC & MARKET DEVELOPMENTS

**GLOBAL MARKETS:** Eurozone government bonds retained a firm tone in European trade on Thursday supported by lingering concerns over an escalating trade dispute between the world's two biggest economies, the ECB's new dovish rate forward guidance and President Mario Draghi's comments at the ECB annual forum on central banking in Sintra that the Central Bank should take a "patient" and "gradual" approach to raising interest rates. In FX markets, the USD extended recent gains with the DXY index hitting a fresh seven-month peak of 95.406 boosted by higher US government bond yields. The GBP weakened ahead of today's BoE MPC announcement failing to capitalize on news that the UK government won the so-called "meaningful vote" amendment.

**GREECE:** The Eurogroup that convenes today is expected to reach a holistic agreement comprising the completion of the 4<sup>th</sup> programme review, the potential debt relief measures and the post-programme framework. According to the 20 June draft compliance report, all prior actions required to conclude the 4<sup>th</sup> review have been completed, the ESM is on track and this paves the way for the final disbursement to Greece of an amount necessary to cover its debt servicing needs plus an amount to help build a cash buffer. The deadline for the expression of interest for the PPC's lignite – fired production units that will be divested expires today and according to press reports 6 investment schemes are expected to participate.

### SOUTH EASTERN EUROPE

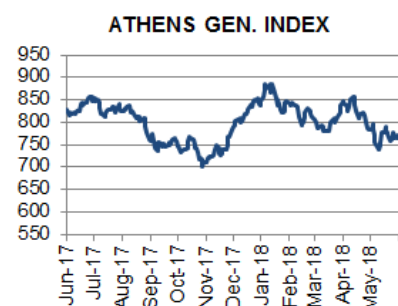
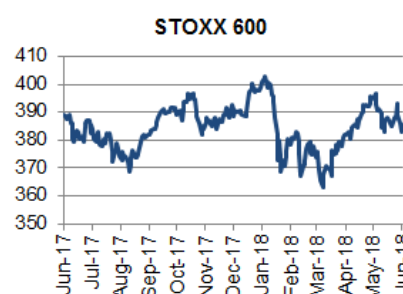
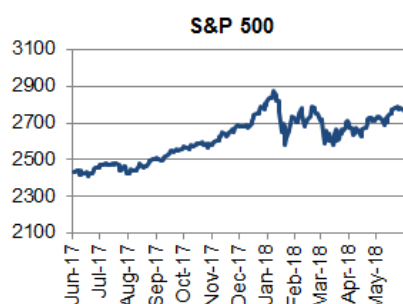
**CESEE MARKETS:** The Turkish lira came under renewed pressure on Thursday morning, trading at 4.7559/USD lower by 0.5% compared to the previous day's close on market concerns that the looming snap presidential and parliamentary elections on June 24<sup>th</sup> could result in a political deadlock.

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## Latest world economic & market developments

### GLOBAL MARKETS



Source: Reuters, Bloomberg, Eurobank Research

Eurozone government bonds retained a firm tone in European trade on Thursday supported by lingering concerns over an escalating trade dispute between the world's two biggest economies and the potential impact on the global economy. The ECB's new dovish rate forward guidance and President Mario Draghi's comments at the ECB annual forum on central banking in Sintra that the Central Bank should take a "patient" and "gradual" approach to raising interest rates, also favored. The 10-yr Bund yield was hovering around 0.38% at the time of writing, 0.6bps higher on the day but still close to Tuesday's three-week low of 0.35% and well below a recent peak close to 0.52% (10 June). In FX markets, the USD extended recent gains with the DXY index hitting a fresh seven-month peak of 95.406 earlier today boosted by higher US government bond yields. After marking an intraday low of 2.88% on Wednesday, the 10-yr UST yield moved higher hovering 5bps higher at the time of writing in European trade on the back of heavy corporate bond supply and Fed Chair Jerome Powell's remarks earlier this week that the US central bank should continue with a gradual pace of rate tightening. The EUR-USD was 0.5% weaker on the day hovering around 1.1515/17, not far from year-to-date low of 1.1506 (29 May). Pressured ahead of today's BoE MPC announcement, the GBP/USD hit a fresh year-to-date trough of 1.3123 failing to capitalize on news that the UK government won the so-called "meaningful vote" amendment to the EU Withdrawal Bill, averting a potential rebellion by pro-EU MPs in the Conservative Party after last-minute concession that it would be up to the Speaker to decide whether MPs would get a "meaningful vote". The BoE will announce today the decision of Wednesday's monetary policy meeting. The Committee is widely expected to have kept rates and QE on hold as the majority of policy makers wait for more data to assess whether the Q1 slowdown was temporary. Focus will be on the voting pattern and the tone of the accompanying statement for clues over policy deliberations ahead as the market assigns a probability of around 50% for a hike in August.

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### GREECE

The Eurogroup that convenes today is expected to reach a holistic agreement comprising the completion of the 4<sup>th</sup> programme review, the potential debt relief measures and the post-programme framework. According to the 20 June draft compliance report, all prior actions required to conclude the 4<sup>th</sup> review have been completed, the ESM is on track and this paves the way for the final disbursement to Greece of an amount necessary to cover its debt servicing needs plus an amount to help build a cash buffer. It adds that sustainable recovery requires continuing, complementing and safeguarding the reforms adopted under the programme and Enhanced Surveillance as set out in Article 2 of EU Regulation 472/2013 can provide the appropriate framework. Moreover, according to the draft compliance report, 2018 GDP growth is expected to reach 1.9% with consumption expected to start growing modestly in 2018 and investment and exports also expected to grow supported by the ongoing privatisation programme and further improvement of economic sentiment after the closure of the 4<sup>th</sup> review and the successful completion of the programme in August. As regards the financial liabilities of c. 0.4% of GDP created by rulings of the Council of State, according to the MTFS they will be addressed in 2018 with fiscal space reallocated from the Public Investment Programme. In other news, the deadline for the expression of interest for the PPC's lignite – fired production units that will be divested expires today and according to press reports 6 investment schemes are expected to participate.

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Thursday 21 June 2018

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

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

CYPRUS: Indicators	2016	2017e	2018f
Real GDP growth %	3.0	3.8	3.6
HICP (pa, yoy %)	-1.2	0.7	1.0
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.4	-6.2

\* ESA 2010

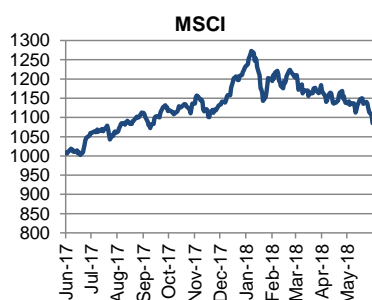
Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

ROMANIA: Indicator:	2016	2017e	2018f
Real GDP growth %	4.8	7.0	4.0
CPI (pa, yoy %)	-1.6	1.3	3.5
Budget Balance/GDP *	-2.4	-3.0	-4.4
Current Account/GDP	-2.2	-3.5	-4.0
EUR/RON (eop)	4.54	4.67	4.70
	2017	current	2018
Policy Rate (eop)	1.75	2.50	3.00

\* on a cash basis

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

SERBIA: Indicators	2016	2017e	2018f
Real GDP growth %	2.7	1.9	3.5
CPI (pa, yoy %)	1.1	3.2	3.0
Budget Balance/GDP	-1.3	0.5	-0.6
Current Account/GDP	-3.1	-5.7	-4.7
EUR/RSD (eop)	123.40	118.2	116.5
	2017	current	2018
Policy Rate (eop)	3.50	3.00	3.00

Source: Reuters, Bloomberg, Eurobank Research,  
National Authorities

Credit Ratings		
L-T ccy	Moody's S&P	Fitch
SERBIA	Ba3	BB
ROMANIA	Baa3	BBB-
BULGARIA	Baa2	BBB-
CYPRUS	Ba3	BB+

## Latest economic & market developments in the CESEE region

### CESEE MARKETS

Emerging market assets mostly remained in red on Thursday morning's trade as the global markets agenda continues to be dominated by global trade jitters, ensuing warnings from major Central Banks and consequently mounting concerns that they are beginning to show up in the business cycle. The MSCI Emerging Markets index lost 0.98% on the day at the time of writing, trading at 1082.52, the lowest point in the last nine months.

The Turkish lira came under renewed pressure on Thursday morning, trading at 4.7559/USD, lower by 0.5% compared to the previous day's close, not too far from a multi-session peak of 4.7712 hit earlier in the month and a record high of 4.9221 hit in late May. Market concerns that the looming snap presidential and parliamentary elections on June 24<sup>th</sup> could result in a political deadlock in the case the ruling party AKP and its allies don't have a parliamentary majority weighted on the lira. The latest opinion polls' results imply a tight race for the ruling AKP party and its allies possibly losing their parliamentary majority by a thin margin and President Erdogan failing to win the presidential vote from the first round. President Tayyip Erdogan commented in an interview that the ruling AKP party could seek to form a coalition if it fails to secure a parliamentary majority on Sunday's elections, but added that the probability of this happening is "very, very low".

Idiosyncratic factors have mostly been at play behind the lira's hefty weakening over recent months, with the currency having lost more than 20% of its value against the USD so far this year despite recent rate hikes and some simplification of monetary policy. Concerns about heightened, double-digit and well above the 5% official target inflation (headline CPI at 12.15% in May, near a 14-year high of 12.98%YoY in November 2017 & core at a record high of 12.64%YoY) in tandem with doubts about the Central Bank's independence and concerns over CBRT falling significantly behind the curve have taken a toll on the lira, as have the recent Fed monetary tightening and the country's elevated external vulnerabilities.

In our view, the post-election landscape still entails significant downside risks for the macro outlook. On the positive side, the election results will shape policy outcomes, thus reducing policy uncertainty and bringing more policy clarity. From that point of view, the leadership of Turkey will have to respond to current investor concerns by providing a new coherent and credible macro framework. On the other hand, the elections' outcomes will neither signal the end of the political cycle, nor eliminate political tensions. Firstly, municipal elections are scheduled for the first quarter of 2019. Secondly, political tensions between the ruling AKP party and the opposition parties will remain elevated because the transition to the Presidential system is widely seen as an attempt to increase the concentration of executive powers around the President. In any case, it currently seems that the political landscape has become increasingly polarized.

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Thursday 21 June 2018

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	2767.32	0.2%	3.5%	EUR/USD	1.1559	-0.1%	-3.7%	UST - 10yr	2.93	-1	52	GOLD	1265	-0.3%	-3.0%
Nikkei 225	22693.04	0.6%	-0.3%	GBP/USD	1.3148	-0.2%	-2.8%	Bund-10yr	0.38	1	-5	BRENT CRUDE	74	-1.0%	10.7%
STOXX 600	385.46	0.3%	-1.0%	USD/JPY	110.58	-0.2%	1.9%	JGB - 10yr	0.04	0	-1	LMEX	3271	-0.3%	-4.3%

SERBIA

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.30	1	-22
1-week	2.43	1	-18
1-month	2.61	1	-24
3-month	2.89	0	-23
6-month	3.06	1	-18

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.42	-1	-86
5Y RSD	3.86	0	-38
7Y RSD	4.38	0	-80

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.93	-1	94
USD Nov-24	#N/A N/A	#N/A N/A	-13164

CDS

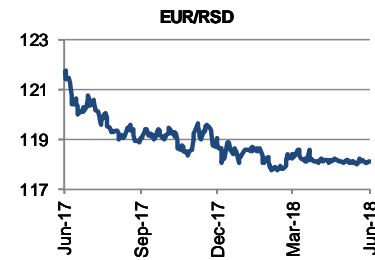
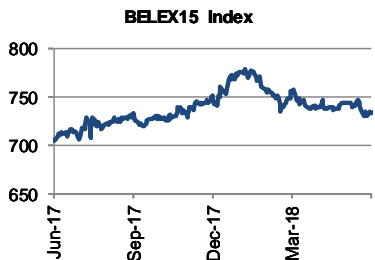
	Last	ΔDbps	ΔYTD bps
5-year	124	-2	6
10-year	168	-2	6

STOCKS

BELEX15	Last	ΔD	ΔYTD
	728.3	-0.73%	-4.15%

FOREX

EUR/RSD	Last	ΔD	ΔYTD
	118.07	0.06%	0.71%



ROMANIA

Money Market			
ROBOR	Last	ΔDbps	ΔYTD bps
O/N	2.51	0	142
1-month	2.88	0	101
3-month	2.93	0	88
6-month	3.07	0	80
12-month	3.17	0	85

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	4.09	0	71
5Y RON	4.70	0	92
10Y RON	4.95	0	64

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.69	0	14
USD Jan-24	4.35	0	135

CDS

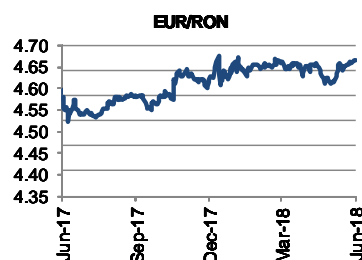
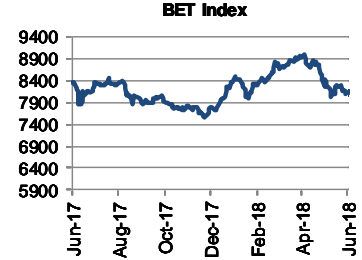
	Last	ΔDbps	ΔYTD bps
5-year	97	1	7
10-year	141	1	8

STOCKS

BET	Last	ΔD	ΔYTD
	8127.9	-0.09%	4.83%

FOREX

EUR/RON	Last	ΔD	ΔYTD
	4.672	0.00%	-0.15%



BULGARIA

Money Market			
SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.30	0	-5
3-month	-0.23	0	-5
6-month	-0.11	1	-6
12-month	0.22	1	-10

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.09	-3	-3
5Y BGN	0.13	0	-1
10Y BGN	0.94	0	-3

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.08	1	15
EUR Sep-24	0.71	-31	13

CDS

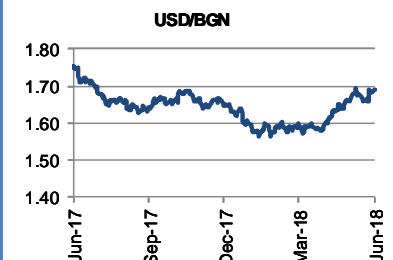
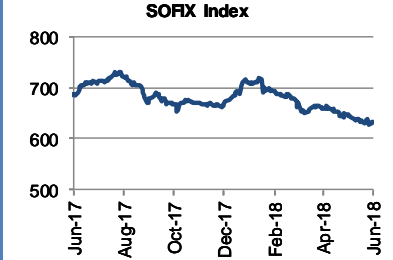
	Last	ΔDbps	ΔYTD bps
5-year	77	0	-19
10-year	118	0	-23

STOCKS

SOFIX	Last	ΔD	ΔYTD
	632.1	-0.02%	-6.69%

FOREX

USD/BGN	Last	ΔD	ΔYTD
	1.6919	-0.12%	-3.69%



Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research  
Data updated as of 11:00 EEST

Thursday 21 June 2018

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