ISSN: 2241-4851

Eurobank Research

EUROBANK

GLOBAL & REGIONAL DAILY

September 13, 2023

Global markets

Government bond yields were higher on the day, both in the US and Europe. Inflation-related concerns are mounting as oil prices continued to rise, with Brent crude climbing above $92/bbl for the first time since November after OPEC data revealed an expected 3mn bpd supply shortfall in Q4 due to the extension of oil production cutbacks by Saudi Arabia and Russia. Meanwhile, investors adjust their positions ahead of today's US CPI for August and the ECB's monetary policy decision on Thursday. Markets expect headline CPI inflation to rise on higher energy prices, while core inflation will likely decelerate in annual terms for the third consecutive month. In the meantime, the implied probability for a 25bps ECB rate hike has increased to 70% from around 40% earlier this week after a media report suggested that the Governing Council will revise higher its inflation projection for next year to above 3%. Elsewhere, investors remain cautious on risk assets, while the EUR/USD was slightly higher favored by a hawkish shift in ECB rate hike expectations.

Greece

According to the European Commission, five principal avenues of funding have been identified to aid Greece in recovering from the recent floods and the wildfires earlier this month. These funding mechanisms could collectively amount to ca €2.25bn. These include a) utilizing unspent cohesion funds and frontloading the respective current allocations, b) activating resources from the European Social Fund+, c) employing the Common Agricultural Policy framework to restore forests and agricultural infrastructure, d) considering the EU Solidarity Fund support, and e) contemplating the allocation of NextGenerationEU resources for the long-term reconstruction. Furthermore, according to press reports, a reallocation of the 2023 Budget expenditure is anticipated to address the fiscal cost of these natural disasters. The primary surplus target for 2023 is expected to remain unchanged at 0.7% of GDP.

CESEE

In Turkey, after a small surplus in June, the current account balance returned to a deficit in July, by $5.47bn, recording the second highest annual increase in 2023 (+58.1%). All the main balances included in the CAB deteriorated, but the surge came mainly from the goods balance and a widening of its deficit by 13.2%YoY (+$1.22bn), due to a faster increase in imports (+8.7%YoY) compared to exports (+6.5%YoY). The increase in the primary income deficit by 78.5%YoY (+$397mn) was the second most defining factor of the higher CAB deficit, followed by a decline in the services surplus by 4.0%YoY (-$252mn). The overall worsening is considered reflecting the implications of the lira devaluation in July (-10.5%MoM vis-a-vis USD, to 0.0377), after the unexpected switch in June to a tight monetary policy stance and, to a lesser extent, rising oil prices globally. In other country news, the seasonally adjusted unemployment rate weakened further in July, to 9.4%, a 9.5-year low, despite the second minimum wage raise in 2023, by 34%, from July onwards.

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