

GLOBAL & REGIONAL MONTHLY

Global business activity continued to display signs of better balance across regions and sectors, fuelling hope that the global expansion remains on a path to more sustainable and solid growth into the middle of the year. At the same time, there remains a lot of uncertainty about the course of disinflation. Consumer energy prices are picking up again; and with labour markets tight, solid wage growth is keeping services inflation too high for comfort. In light of these developments, major central banks are approaching the easing cycle with caution. Some have already started dialling back the degree of policy restrictiveness, but they are doing so while emphasizing their data dependence that leaves them non-committal to any policy path.

Macro Picture

USA: underlying growth momentum still healthy amid strong household spending fundamentals

EA: economic recovery builds momentum, while the disinflationary process remains bumpy

China: hard data points to uneven recovery; forward looking indicators mixed

Japan: weak domestic demand continued to drag on growth as GDP contracted in Q1

CESEE: GDP growth in Q1 proved to be solid with hiccups in disinflation in May

Markets

FX: EUR lower after ECB cut and coming French elections; EUR/JPY resilient to BOJ interventions

Rates: EU, US rates expected to consolidate as no more rate cuts expected before summer's end

EM: sovereign spreads ended wider, absorbing the downward movement in US rates

Credit: after ECB policy decision, focus shifts to Fed signals on how soon rate cuts may come

Policy Outlook

USA: Fed communication continues to indicate that rates will likely remain high for longer

EA: the ECB delivered a well-telegraphed 25bps cut but did not pre-commit to a rate easing path

Japan: BoJ likely to signal reduced bond buying at June meeting; rate hikes in view after that

CESEE: inflation upside risks squeeze the available room for further rate cuts

Key Downside Risks

DM: persistent high inflation resulting in tighter global financial conditions, more restrictive than projected fiscal and monetary policy, renewed energy shock, growing trade restrictions, mounting political uncertainty

EM: intensified conflict and geopolitical tensions, further trade fragmentation, weaker-than-expected growth in China weighs on commodity exporters

Special Topic in this issue:

→ Policy developments around industrial metals and their implications for prices

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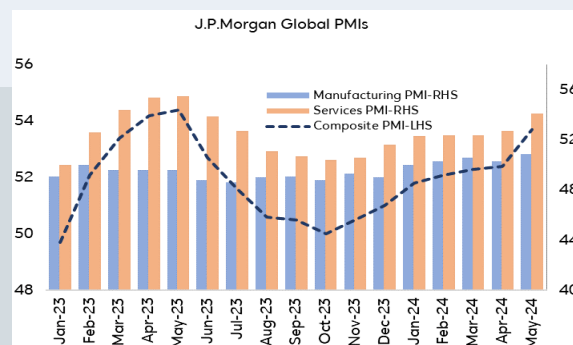
Macro Views

Growth prospects brighten as uncertainty about the disinflation process keeps major CBs cautious about the scale of easing cycles

Global business activity has been displaying signs of better balance across regions and sectors in recent months, offering hope that the global expansion is on a path of more sustainable solid growth into mid-year. Broadly aligned with this narrative, the global composite PMI posted its seventh monthly gain in May, reflecting continued resilience to tighter monetary conditions and persistent geopolitical risks. Supported by a strengthening in both output and new orders, the respective index rose to 53.7, the highest reading since June 2023, up from April's 52.4. Importantly, new export orders — a key forward looking indicator — remained slightly above the expansionary threshold of 50 for the second consecutive month (51.2) and employment improved (51.3), fueling optimism for continued healthy momentum in the near term. The rebound in the composite PMI was reinforced by a renewed uptrend across sectors. The manufacturing PMI gathered further pace in May, rising by 0.6ppt to a 22-month high of 50.9, remaining above the key level of 50 for a fourth successive month. At the same time, the service sector continued to be robust, with the respective PMI index rising to 54.1, up from 52.7 in April. Regional activity also is coming into better balance as activity outside the US continued to improve after a period of US outperformance. Asian economies performed relatively better, particularly India. Separately, real global export volumes retreated in March (-1.4%MoM), but performed strongly overall in Q1, rising by a solid 1.4%, the fastest quarterly pace since Q2 2023, according to data from the CBP Netherlands Bureau for Economic Policy Analysis. Similarly, industrial production also fell in March (0.3%MoM) but was up overall in Q1 (0.2%QoQ).

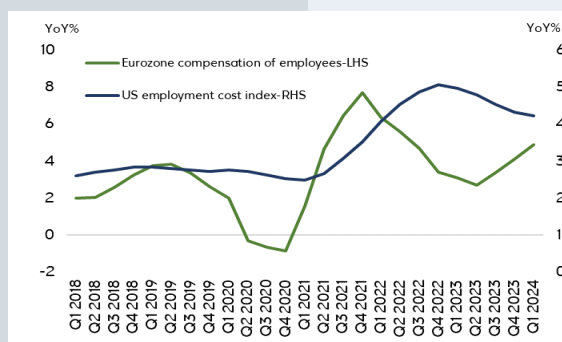
Meanwhile, uncertainty about the disinflation process that took hold last year remains elevated. Global headline CPI growth continued to decline modestly but remains too high for central banks' comfort, as global food inflation has only partially offset the rebound in energy prices due to increased geopolitical uncertainty. Additionally, the deflationary trend observed in goods prices in H2 2023, driven by easing supply-chain pressures and softening global goods demand, appears to be losing some momentum. More importantly, service price growth remains

Figure 1: PMI surveys continued to display signs of better balance across sectors in May



Source: Bloomberg, Eurobank Research

Figure 2: High wage growth as labour markets remain tight



Source: BLS, ECB, Eurobank Research

rapid in most major economies, well above pre-pandemic levels, primarily driven by ongoing labour market strength in most developed economies, leading to continuing wage inflation.

All told, sticky services inflation is keeping major central banks cautious as they contemplate the speed and likely overall scale of rate cuts, even as some of them have already begun to dial back the degree of policy restrictiveness. This is because they need more time to build sufficient confidence that inflation is moving sustainably toward target levels. Overall, several major central banks will likely extend their high-for-longer policy stance, by slowing or delaying easing cycles, while keeping data dependence that leaves them non-committal on any policy cycle. This approach aims to ensure that inflationary pressures, particularly in the services sector, are adequately addressed before making significant policy adjustments, thereby balancing the goals of supporting economic growth and maintaining price stability.

Developed Economies

US: Federal Reserve officials have continued to signal in recent weeks that rate cuts are off the table for now, and interest rates will likely be held at their current high level for longer, as they patiently await more concrete evidence that inflation is moving sustainably toward the 2% target. This stance comes as no surprise, given persistently high price pressures and the economy's continued high degree of resilience to the Fed's restrictive policy. Looking to Q2, data released so far present a mixed picture but overall point to continued healthy growth. Meanwhile, inflation data for April showed a slight easing after three consecutive months of upward surprises. Nevertheless, price pressures remain elevated, particularly in core services and core services ex housing (supercore) inflation. Additionally, average hourly earnings reaccelerated in May to 4.1%YoY from 4.0%YoY. In light of these developments, OIS forward rates currently indicate just 30bps of rate cuts this year and around 85bps for 2025.

Euro area: After more than a year of stagnation, the economy experienced a strong rebound in Q1 2024 (0.3%QoQ), while leading indicators for Q2, including May's PMI and European Commission's surveys signalling that this positive momentum is continuing to build. However, the recovery is expected to remain modest, as suggested by the recent flurry of weak hard data, such as May's industrial production and retail sales. On the inflation front, both headline and core CPI surprised to the upside in May, indicating that the disinflation trend remains bumpy and sluggish. Headline inflation rose for the first time since December 2023, up by 0.2ppts to 2.6%YoY. This rise was primarily driven by the core rate which in April broke the five-month long streak of 4.0%YoY prints and eased to 3.7%YoY, before bouncing back to 4.1%YoY in May. Despite the renewed strength in May inflation data, the ECB delivered a well telegraphed 25bps rate cut at the 6 June policy meeting. However, amid elevated uncertainty about prospects for sustained disinflation, the central bank refrained from giving even an implicit signal about the future rate easing path.

Emerging Economies

EM: key developments come from the political stage and particularly the outcome of the elections in key emerging economies such as Mexico and India. Claudia Sheinbaum, the former head of the government of Mexico City, won a landslide victory in Mexico's presidential election. The scale of victory of her Morena party caught markets by surprise, spurring suspicions that the supermajority result in the Congressional election that took place at the same time would pave the way for her government to pass constitutional reforms without opposition support, leading to the adoption of market-unfriendly policies that could hamper the business environment. On the other side of the globe, in India, incumbent PM Narendra Modi secured a third term at helm but with his party Bharatiya Janata (BJP) failing to secure a majority to govern on its own this term. The BJP needed and found support from its regional allies, enlisted to the National Democratic Alliance. Yet, unlike the case of Mexico where investors worry about the overconfidence of the new government, given the strong majority upon which it is based and how this could lead to some radical decisions, for India the worries are in the opposite direction. Specifically, market concern that the coalition will pivot from the highly market-oriented mandate of the BJP in the previous two terms to more conventional policies that could jeopardise the ambitious growth agenda and fiscal consolidation. Concluding with an institutional twist, in the fresh Global Economic Prospects released by the World Bank, growth projections for the emerging space remained broadly unchanged compared to January's respective outlook. Developing economies are projected to edge down from 4.2% in 2023 to 4% in 2024 and then remain broadly stable up to 2026. Risks to the growth outlook remain tilted to the downside across all emerging regions owing to the possibilities of intensified conflict and geopolitical tensions and further trade fragmentation.

CESEE: GDP growth in Q1 2024 proved to be solid in the region broadly, driven mostly by private consumption. GDP expanded markedly in all CEE3 and Romania, with the exception of Czechia where growth dynamics were less rosy, yet not disappointing. Inflation had a mixed performance by continuing to retreat in some economies (Czechia, Romania) and surging in others (Hungary, Poland). In the absence of a clear continuing disinflationary course, sentiment indicators released for the CEE3 and Romania also came in mixed with those in Poland and Czechia failing to break the benchmark of 50 and those in Romania and Hungary passing the bar. Along these lines, central banks in the region were divided among those that held fire in their latest monetary policy committees such as Poland where the Key Policy Rate (KPR) was kept unchanged at 5.75% in early June and those of Czechia in early May and Hungary at the end of the same month that proceeded with 50bps cuts bringing the KPRs at 5.25% and 7.25% respectively.

Markets View

Foreign Exchange

EUR/USD: edging lower towards 1.07 from May's high of around 1.09. ECB's cut at the June meeting and Macron calling snap elections are pulling the pair further down. A break below 1.07 could pave the way for a potential downward push towards 1.055-1.06 territory. Support levels include 1.0658, 1.0605 and 1.0551 while resistance levels include 1.1034, 1.1089 and 1.1144. Implied volatility ticking higher, with 1M, 6M and 9M currently at 5.8775%, 5.7% and 6.24% respectively.

EUR/JPY: also lower than previous month's high of ~170.90. BoJ interventions still not substantial enough for the pair to break lower than the most recent low at 164 – the first psychological short-term support. Other support levels include 166.8645, 166.0218 and 165.179 and resistance ones the 172.8413, 173.697, and 174.5526. 1M, 6M and 9M implied volatility currently at 8.695%, 8.505% and 8.885% respectively.

Rates

EU: swap rates have increased after a volatile month. The 10yr swap is trading at 288bps, up from 278bps in the previous month but having printed a high of 292bps earlier this month. The slope of the curve remains consolidated at the same levels, with 5s-30s trading at -38bps. Looking forward it is anticipated that yields will hover around the same levels given that the ECB delivered a “hawkish cut” at the June 6 policy meeting with less guidance than expected and signalled a pure data-dependent forward path.

US: swap rates closed the month mixed. The 10yr swap rate is trading at 410bps, at a similar level as the previous month, but having traded as low as 390bps. The curve shift remains consolidated close to -40bps. Going forward we expect rates to hover around the current levels and slightly higher after the strong May NFP numbers. Markets now do not anticipate any rate cuts before October and many US banks, including JPM and Citi, have pushed their projections for the first rate cut to after the summer.

Emerging Markets Sovereign Credit

EM sovereign spreads widened by approximately 20bps from the start of May, absorbing the rally in US rates where the 10yr benchmark's yield dropped almost 30bps on weaker labour market data. Starting from Latam, Mexican external debt clearly underperformed its peers with asset swaps widening by approximately 10bps due to the presidential elections. As expected, Claudia Sheinbaum will be Mexico's next president, but the super majority obtained by the Morena party created some concern in markets, with spreads initially widening further in the first few days after the elections, before buying interest emerged and erased part of these losses. In central Europe, Serbian and Hungarian government EUR bonds were

the best performers, with the 10yr asset swap dropping 11bps and 13bps respectively. In the Middle East, the easing of geopolitical tensions led Israeli external debt to trade in a positive tone, with spreads approximately 10bps tighter than they were at the end of April. Finally, in Africa the South African USD bonds moved slightly wider due to the election's outcome, where the governing ANC party will need to find alliances to build a majority government. We are modestly supportive on EM sovereign bonds as carry trades during the summer, even though spreads remain quite tight and therefore not very attractive.

Corporate Credit

May got off to a positive start, as the Fed's meeting at the beginning of the month proved to be less hawkish than expected. Risk assets did well for much of May amid easing US inflation. Nevertheless, the rally stalled around the middle of the month and markets struggled again towards the end of May as global inflation data proved stickier than expected. Sentiment turned positive again in June in view of supportive macro and the ECB rate decision. Overall, the backdrop was positive for equities, with the S&P 500 advancing +6.2% since the end of April, alongside 3.7% gains for Stoxx 600 and 3.5% gains for DAX. Meanwhile, a calmer geopolitical backdrop led to a decline in oil prices, helping ease inflation concerns. Brent crude oil declined -9% since the beginning of May, after 4 consecutive monthly gains. On the central bank front, the ECB became the latest central bank to cut rates in this cycle. It delivered a 25bps cut, the first cut since 2019, taking the deposit rate to 3.75%. The move was widely anticipated and even though the tone was a bit hawkish, it has cemented the idea that global monetary policy is moving toward an easing mode. On the politics front, the EP elections took place on June 6-9, with the main takeaway being that the centrist majority is holding despite electoral defeats in France and Germany. President Macron has called for snap elections after his party trailed behind far-right Le Pen, with elections due to take place in two rounds on June 30 and July 7.

In credit, European synthetics moved tighter since the beginning of May, with Main -4bps and Xover -28bps. Both indices performed broadly in line with US spreads (CDX IG -4bps and CDX HY -22bps since the end of April). In EUR Corporate cash, IEAC ended flattish to a tad wider on the month, with IHYG outperforming (-19bps since the beginning of May). Financials continued to outperform among EUR IG cash (Snr Fins -0.4bps, Sub Fins -6bps) while Healthcare and Consumer Staples lagged (c. +8bps each). In High Yield, Energy (-55bps), Financials (-20 to -40bps) and Healthcare (-30bps) outperformed since the end of April. On the other hand, Technology underperformed (+31bps). In the European primary market, activity picked up in May after subdued issuance in April. Total May issuance amounted to €190bn from €145bn in April, with June issuance standing at €39bn so far.

Special Topic: Policy developments in the metals space and implications for prices

Recent sanctions and measures boosting metals

The significant disinflation in January-November 2023 in many economies has in most cases slowed or even reversed since then, due to developments concerning energy products (extension of voluntary production cuts by OPEC+, Houthi rebel attacks on ships). Indicatively, the slowdown in annual inflation in the Eurozone by 6.8 ppts in January-November 2023, to 2.4%, and its fluctuations up to April, between this level and 0.5ppts higher, are mainly due to energy prices, as the 25.4%YoY rise in the energy price index in December 2022 gradually turned into a 11.4%YoY fall last November, which weakened to only 0.6%YoY in April this year. In turn, the weakened deflationary process has led to high interest rates for longer.

The above developments strengthen the interest in potential implications from a series of recent policy developments in the industrial metals space. These comprise sanctions on Russian and Chinese metals and extraordinary measures in China to support the construction and real estate sectors. Specifically, the US and UK implemented new prohibitions on Russian-origin metals, aimed at curbing the country's revenue from metal exports supporting its military operations in Ukraine. The US Department of the Treasury's Office of Foreign Assets Control (OFAC) issued a determination prohibiting imports into the US of Covered Russian Metals, i.e., aluminium, copper, and nickel, produced on or after April 13, 2024. The UK's metals restrictions updates aimed at prohibiting the trading of in-scope Russian metals – including, but not limited to, copper, nickel, aluminium and zinc – since the same date on metals exchanges, namely the London Metal Exchange (LME) and Chicago Mercantile Exchange (CME). The new sanctions created concerns over metals supply, especially as over the months before the ban, the abundance of Russian metals had exerted downward pressure on LME prices, mainly in the case of aluminum.

On May 14, the US government unveiled much higher tariffs on imports from China. Under the new rules, tariffs on Chinese electric vehicles jumped from 25% to 100% which will affect China's demand for copper and aluminium. Duties on Chinese solar panel will increase from 25% to 50% and those on semiconductors from 25% to 50%, but the latter rise will only become effective from 2025. The new rules also raised maximum duties directly on steel and aluminium products from 7.5% to 25%.

In contrast to these sanctions, China announced some new decisive steps on May 17 to stabilise its property sector, that plays a dominant role in the country's iron ore and aluminium production and demand, aiming to clear the house inventory and boost homebuyer demand. Specifically, the central bank facilitated 1tn yuan (\$138bn) in extra funding and eased mortgage rules. In response, several cities lowered downpayments and mortgage loan interest rates. China's housing ministry said local governments can instruct state-owned firms to buy "some" homes at "reasonable" prices. Vice Premier He Lifeng stated that these homes would be used to provide affordable housing, adding that the local governments, already some \$9tn in debt, can repurchase land sold to developers. However, according to country analysts, while clearing the inventory will increase cashflow to developers and strengthen their financial stability, it does

not necessarily address weakened private sector confidence, which is a prerequisite for inducing private sector demand.

In general, a slightly weaker USD in Q1 2024 relative to the previous quarter, amidst persistently high US interest rates inhibiting GDP growth, made dollar-priced commodities cheaper for holders of other currencies and has led to large inflows of capital from investors outside the commodity space to the metals space.

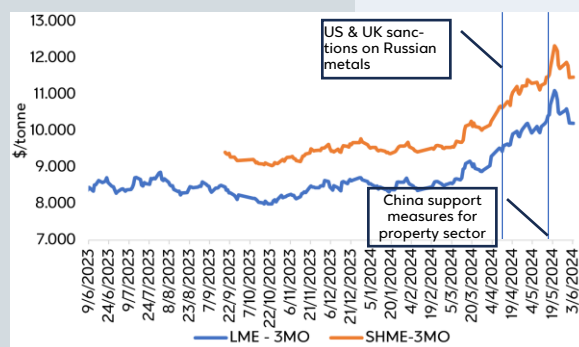
In the remainder of the special topic, we present the already evident and potential effects of the above policy developments and other metal-specific factors on their prices and inflation.

Copper: Recovering production capacity adequate to restrain price increases

Since mid-February this year, investors bet more on copper's mounting usage in fast-growing sectors such as electric vehicles (EVs), renewable energy production and artificial intelligence, due to the metal's prowess as a conductor of electricity, enabling its widespread use for making cables, wires etc. This led prior to the new sanctions, up to April 12, to a 16.2% price increase in the most traded futures contract (3-month ahead) in the LME, to \$9,400/tonne, a 12.5-month high. Copper prices took off even higher after the sanctions imposition and in mid-May the rally went into overdrive as a short squeeze on the New York futures market (NYMEX) triggered a global rush to secure the metal, resulting in the highest-ever price in the LME on May 20, \$11,104.50/tonne intra-session (+30.5%YtD). On the other hand, the contract price declined significantly afterwards, falling below \$10,000/tonne in early June.

Despite the favourable long-term outlook for copper due to its importance for digital transformation and reducing reliance on fossil fuels, the current physical consumption is far removed from the market frenzy. According to the International Copper Study Group (ICSG), the world apparent refined copper usage grew by about 4%YoY in Q1 2024. On the supply side, world copper mine production increased by about 6%YoY in Q1, benefitting from a recovery of 2023 constrained output mainly in Chile, Indonesia, Peru and the US. Furthermore, refined copper production expanded in the same period by 5.3%YoY, almost entirely due to strong performances in China and Congo from expanded capacity, as global output elsewhere rose only 0.2%YoY. Consequently, the world refined copper balance indicated a surplus of about 287,000t in January to March this year, up by 43.5%YoY, of which 125,000t (43.6% of total) was generated in March. In China, the top consumer of the metal, demand remains relatively tepid, with inventories at a four-year high. Premiums paid on imports slumped to zero in April. A BNP Paribas research note cited an estimate of 500,000t of unsold wire-rod copper stock in the country. Chinese demand is so

Figure 3: prices spiked before sanctions, backed by the rapidly emerging electric vehicles segment



Source: Bloomberg, Refinitiv Eikon, Eurobank Research

subdued that smelters have been racing to export copper as prices in NYMEX and LME have shot ahead of prevailing prices in the domestic market (Shanghai Metals Exchange – SHME). These demand and supply characteristics cannot support copper prices at the current high levels, at least in the short-term period. Accordingly, no important boosting effects to prices of consumer goods including parts made of copper are expected e.g., household appliances, vehicles, telephone and telefax equipment, audiovisual, photographic and information processing equipment.

Aluminium: Production outside Russia ramps up, coping with rising demand

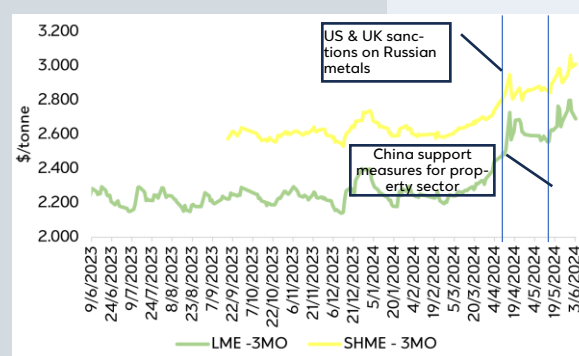
Exorbitant copper prices could prompt a shift of the industrial sector from copper to aluminium, as happened at the end of May. The metal is also expected to play a major role in the new digital era, grounded on artificial intelligence and other digital technology breakthroughs, but also in the green transition, as it is an electrical conductor almost twice as effective as copper. From a broader perspective, aluminium is the most versatile metal, with uses in many different industries, mostly in construction, transportation and electrical goods.

On the downside, aluminium is one of the most energy-intensive metals to produce, as the amount of power needed for it is about 40 times higher than that for making copper. For this reason, the aluminium sector was one of the worst-affected industries in Europe from the Russian war in Ukraine and the subsequent energy crisis, with more than half of regional capacity taken offline as power prices surged.

Aluminium prices have been rising in the main metals markets (LME, SHME, COMEX) since early March, spiking 14.7% in the LME and 10% in the SHME up to the imposition of the new US and UK sanctions. They rose afterwards by another 14.2% and 5.7% respectively, resulting in a 24-month high on May 30, at \$2,787/tonne, and ¥21,740/tonne, respectively. China is the world's biggest supplier of the metal and the price increases in March and early April came mainly from a production reduction in the aluminium plants in the Yunnan province because of a drought, as electricity in the area comes from hydropower. These production cuts came at period when Chinese industrial production had gained momentum, rising on average 6.2%YoY in Q1 2024 after 6.0%YoY in Q4 2023 and 4.5%YoY in Q3 2023, powered by the EVs production segment and exports. This dynamic continued in April (+6.7%YoY), but this time was supported by aluminium output, which expanded 7%YoY, with the daily run-rate surpassing even the all-time high set in September 2023.

The May upward price trend mainly reflects, as in the case of copper, large capital inflows from non-regular commodity investors, amid heightened concerns for supply tightness besides the US and UK sanctions,

Figure 4: successive supply bottlenecks in different countries reinforce the effects of recent sanctions



Source: Bloomberg, Refinitiv Eikon, Eurobank Research

because of the Rio Tinto Group¹ declaring on May 20 force majeure on alumina cargoes, an intermediary product between bauxite and aluminium, from its refineries in Queensland due to shortages of gas to power its operation. In the last week of May, a stream of investors was observed switching from copper to aluminium, causing the price drop in the former metal described previously.

Looking ahead, provided that extreme weather conditions will not put a drag on aluminium output in China as in early 2024, its recovery in April is expected to continue, with production rising also in anticipation of a resurgence in construction following the recent measures by the Chinese government. Activity in the aluminium industry in Europe is also expected to ramp up in the period ahead, especially in France and Germany, backed by falling energy prices. Thus, although trade restrictions and support measures in China could sustain aluminium prices at a higher level than in 2023 and early 2024, the supply side seems able to respond to most of these price increasing dynamics, holding back inflationary pressures mostly in the same consumer goods categories that are affected by changes in the price of copper.

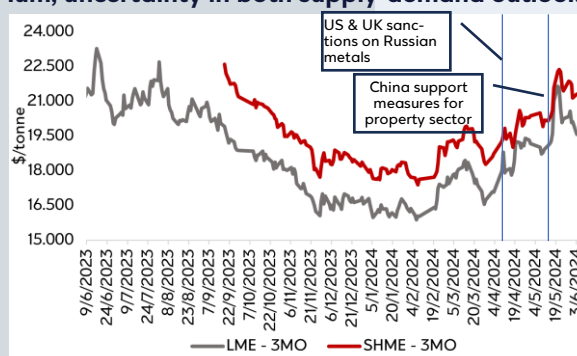
Nickel: Between the clashing rocks of supply bottlenecks and rising Chinese demand

The price surge in nickel in the recent months was milder compared to the previous two metals in the eye of the recent sanctions. Nickel is known for being corrosion resistant, which is why it is used for plating other metals to protect them. It is, however, mainly used in making alloys such as stainless steel, nichrome, which is an alloy of nickel and chromium, alloys with copper used in desalination plants, nickel-steel alloys used for armour plating etc. Its prices started rising since early February in the LME and SHME, standing higher by 11.2% (to \$18,000/tonne) and 13.9% (¥137,600/tonne), respectively prior to the new round of prohibitions and policies boosting metals. The upward trend came from anticipated supply tightening based on delays in Indonesian miners acquiring the permits they needed to supply their smelters. On the demand side, China's stainless steel production picked up in 2023 and the beginning of 2024, and the Two Sessions gathering (i.e. of the National People's Congress and of the Chinese People's Political Consultative Conference, which are both held jointly every March) emphasised this year the target of expanding the EVs segment, both by increasing manufacturing capacity and stipulating vehicles purchases.

Prices went further up after mid-April until May 20 in the aftermath of the aforementioned measures but also due to a wave of civil unrest in New Caledonia, that holds the world's fifth largest reserves of nickel

¹ British-Australian multinational company that is the world's second largest metals and mining corporation behind BHP

Figure 5: milder price increase than copper-aluminium, uncertainty in both supply-demand outlook



Source: Bloomberg, Refinitiv Eikon, Eurobank Research

and in 2023 ranked third globally in terms of mined nickel, with the price rise being more pronounced in Europe than in China (+20.0% vs. +14.6%). However, these levels were just few-month (seven/nine) highs, implying that the overall upturn since February was not as strong as those in copper and aluminium. By early June nickel prices had returned to their late April level, approximately 4.5% (LME) and 8.3% (SHME) below their recent highs, after French President Emmanuel Macron's emergency visit to New Caledonia on May 23 to spearhead dialog between the factions involved and the lifting on May 27 of the state of emergency in the country, though the territory's curfews and other restrictions remain in place. Furthermore, on May 23, Indonesia's ministry of energy approved 204 nickel mining work plans for exploration and production, with an estimated combined quota of 220.7mn tonnes, a quantity which exceeds last year's output (175.6mn tonnes) but according to market participants may not be enough to meet expected demand this year. As the approval rates for nickel mining in some regions were significantly lower, there is room for more approvals this year. However, in the short-term, a shortage of nickel ore is likely to emerge.

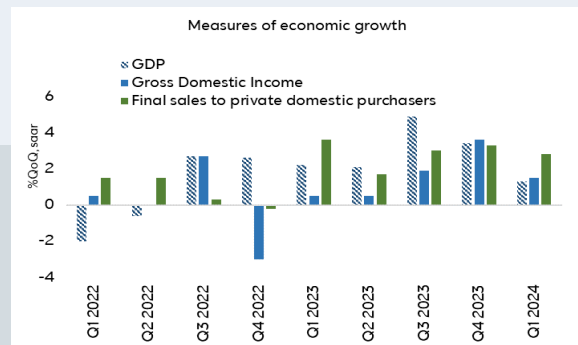
To sum up, nickel prices will likely remain volatile in the coming months, depending on the approval of more work plans in Indonesia, availability of supplies from New Caledonia and the growth rate of Chinese stainless steel and EVs demand. These dynamics could lead to price increases in products including nickel parts, such as telephone and telefax equipment, household appliances, jewellery-clocks-watches, dental devices, musical instruments, etc.

US

Growth momentum still healthy amid strong household spending fundamentals

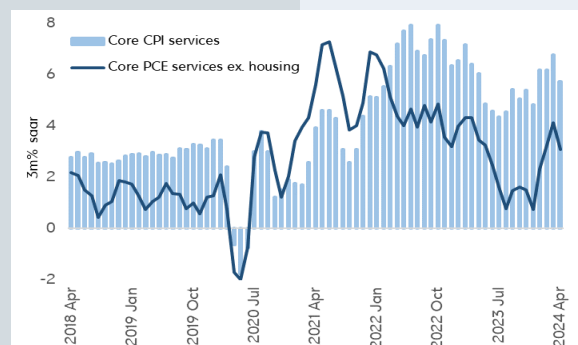
Federal Reserve officials have continued to signal in recent weeks that rate cuts are off the table for now, and interest rates will likely be held at their current high level for longer, as they patiently await more concrete evidence that inflation is moving sustainably toward the 2% target. This stance comes as no surprise, given persistently high price pressures and the economy's continued high degree of resilience to the Fed's restrictive policy. Real GDP for Q1 2024 was revised lower to 1.3%QoQ saar from the advance 1.6%QoQ estimate — significantly below the 3.4%QoQ growth rate recorded in Q4 2023. However, underlying growth momentum remains strong. Final sales to private domestic purchasers — a measure of underlying momentum that excludes the volatile trade and inventory components and is regarded by the Fed as a more reliable indicator of GDP momentum — rose by a still solid 2.8%QoQ, just 0.4ppt slower than the H2 2023 average, as an acceleration in private fixed investment (6.0% from 3.5%) offset a deceleration in personal consumption (2.0% from 3.3%). Looking to Q2, data released so far present a mixed picture but overall point to continued healthy growth. The May flash PMIs strongly surpassed expectations, with the composite index rebounding to a 25-month high (+3.1pts to 54.4). The Conference Board consumer confidence index rose unexpectedly in May (+4.5pts to 102) after three consecutive declines, driven primarily by the ongoing strength in the labour market. In a similar positive tone, core capital goods orders came in stronger than anticipated in April (0.3%MoM). Conversely, real disposable income declined 0.1%MoM in April and real personal consumption unexpectedly dropped 0.1%MoM after March's 0.4%MoM gain. However, prospects for a sustained deceleration in spending appear tenuous, as household spending fundamentals remain strong (in nominal terms, in Q4 2023 household wealth was up near 34% compared to pre-pandemic levels, reaching \$156trn). Meanwhile, inflation data for April showed a slight easing after three consecutive months of upward surprises (headline CPI -0.1ppt to 3.4%YoY, core CPI -0.2ppts to 3.6%YoY, core PCE unchanged at 2.8%YoY but down 0.2%MoM from 0.3%MoM). Nevertheless, price pressures remain elevated, particularly in core services and core services ex housing (supercore) inflation. Additionally, average hourly earnings reaccelerated in May to 4.1%YoY from 4.0%YoY. In light of these developments, OIS forward rates currently indicate just 30bps of rate cuts this year and around 85bp for 2025.

Figure 6: Measures of GDP growth continue to point to healthy momentum



Source: BLS, Eurobank Research

Figure 7: Slow disinflation progress



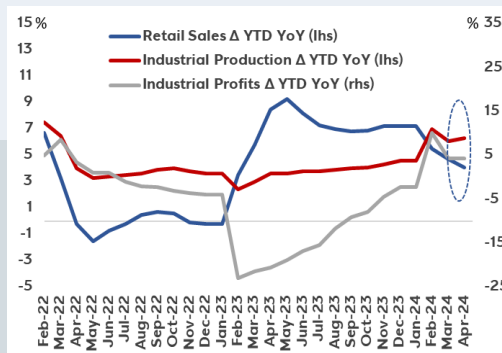
Source: BLS, Eurobank Research

China

Hard data point to uneven recovery; forward looking indicators mixed

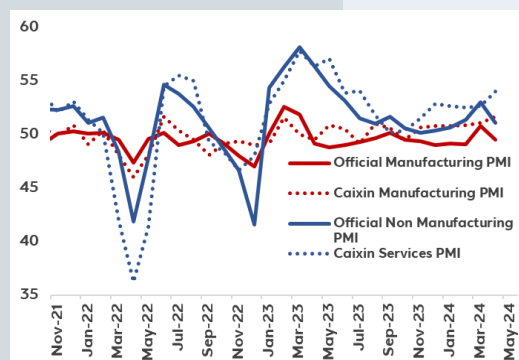
In the aftermath of the Q1 2024 growth reading (5.3%YoY vs 5.2%YoY in Q4 2023 and FY2023), much attention was paid to the official manufacturing PMI which dipped from 50.4 in April below the 50 threshold that separates expansion from contraction, coming in at 49.5. The drop in this key gauge was larger than typical for this time of the year as indicatively in May 2023 it dipped by only half a point and in May 2022 it actually increased. And while the respective Caixin proxy may have improved by a tad to 51.7 in May from 51.6 in the previous month, the subindices for new orders and new export orders in both manufacturing proxies, official and Caixin, retreated from April's levels, implying weaker demand. Such a coincidence raises the question for how long the recovery can continue relying on supply as, apparently, demand has not returned to a solid footing, and whether this mismatch between demand and supply will allow for the circa 5% growth target to be attained this year. Underlining these doubts, retail sales increased at a slower pace of 2.3%YoY in April from 3.1%YoY in March, confounding market expectations for a bigger increase of 3.7%YoY. Additionally, imports increased at a slower 1.8% pace in May, following an 8.4% spike in April, highlighting the fragility of domestic consumption. On the flipside, exports surprised positively, jumping by 7.6%YoY from 1.5%YoY in the previous month. The momentum, however, is likely to be short-lived given recent declarations by key trading partners over the adoption of new tariffs. Specifically, in mid-May US President Joe Biden unveiled steep tariff increases on a high-tech basket of Chinese imports including electric vehicle (EV) batteries, computer chips and medical products. In a similar vein, the European Commission is preparing to impose tariffs on EVs imported from China after an anti-subsidy investigation which is about to be completed. Concluding with an institutional twist, in the press release for the completion of its Article IV mission in late May, the IMF raised the forecast for 2024 and 2025 to 5.0% and 4.5% respectively compared to the April WEO projections, tilting, however, growth risks to the downside on the back of the “greater- or longer-than-expected property sector adjustment.”

Figure 8: Hard data point to uneven recovery ...



Source: Bloomberg, Eurobank Research

Figure 9: ..forward looking indicators mixed



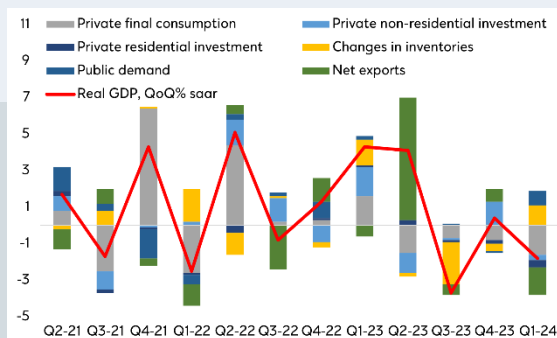
Source: Bloomberg, Eurobank Research

Japan

Second interest hike coming into view despite mixed macroeconomic data

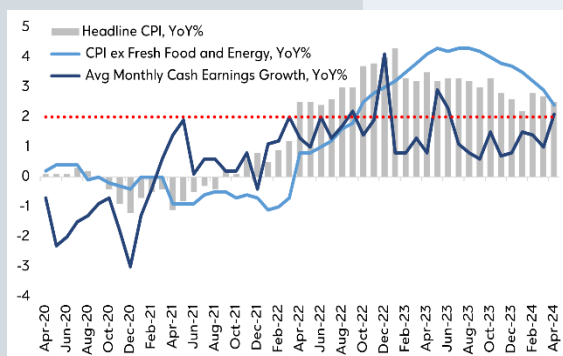
The second BoJ rate hike of the current tightening cycle is increasingly coming into view, with the weak yen driving the central bank to take a more hawkish stance. To some extent, the economic data justification for such a move is based more on a forward-looking expectation that inflation will stay close to the 2% target on an sustainable, demand-led basis. In reality, domestic demand remains weak. Japan's economy contracted in Q1 2024, though the drop in economic activity was revised smaller to an annualised 1.8%QoQ from an initial estimate of a 2% contraction due to upward revisions to capital expenditure and inventories. Private consumption shrank an annualised 0.7%QoQ, unchanged from the preliminary estimate, its fourth straight quarterly contraction. Headline inflation slowed to 2.5%YoY in April from 2.7%YoY the month before, with the core inflation gauge excluding both fresh food and energy decelerating by 0.5ppts to 2.4%YoY. A central plank of the BoJ's reasoning for hiking the policy rate in March – the first increase in 17 years – was that the largest pay increases in decades arising out of the annual spring wage negotiations, which encompass large corporations, would filter down to wage gains at smaller firms that form the bulk of Japan's economy. On the face of it, there were tentative signs of that as cash earnings increased 2.1%YoY in April from an upwardly revised 1.0%YoY the month before, higher than the consensus estimate of 1.8%YoY. However, inflation-adjusted wages fell for a 25th straight month, while methodological issues around the sampling of cash earnings suggest the actual increase may have been smaller. The contraction in private consumption is attributed to inflation eroding the purchasing power of Japanese households, while the “economy watchers” gauge of service sector sentiment worsened in May to its lowest level in almost two years. Since the weak yen is responsible for boosting food and energy prices and thus dampening consumer demand, the view is growing that raising interest rates is necessary to protect economic growth. The market implied odds that the BoJ will hike rates by 10bps by its July meeting currently stands at 64%, while a rate hike is fully priced in by September. Overall, futures markets are currently pricing in 25bps of tightening this year.

Figure 10: Public demand and inventories were the only positive contributors to Q1 GDP



Source: Japan's Cabinet Office, Eurobank Research

Figure 11: Nominal wage growth picked up in April, but remained below inflation



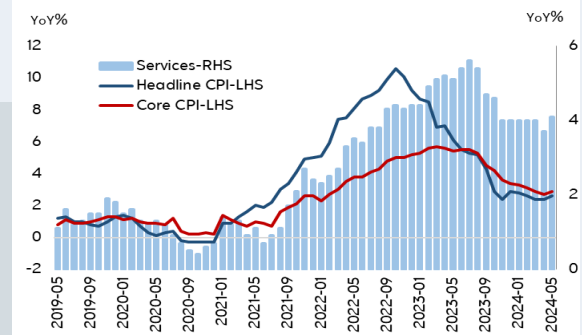
Source: Bloomberg, Eurobank Research

Euro area

The ECB delivered the expected cut, but did not commit to a rate easing path

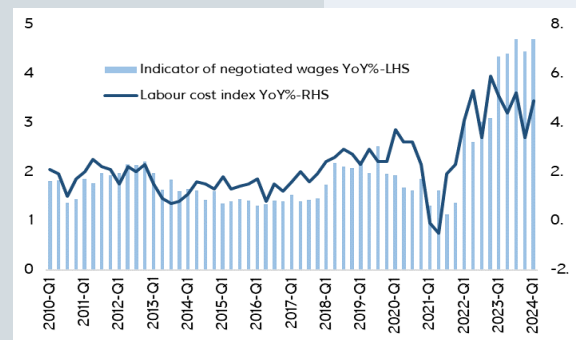
After more than a year of stagnation, the economy experienced a strong rebound in Q1 2024 (0.3%QoQ), while leading indicators for Q2 signal that this positive momentum is continuing to build. The composite PMI index increased further in May, reaching 52.3 (+0.6pts), its highest level since May 2023. This fifth consecutive uptick was propelled by a notable improvement in the manufacturing index, which, while still in contractionary territory, rose 1.6pts to 47.3. Meanwhile, the services sector was barely changed at 53.2 (-0.1pt) after significant gains in the preceding three months. On a similar positive trend, the European Commission's economic sentiment indicator improved in May from 95.6 to 96, reflecting gains across all sectors except construction. Consumer confidence also increased modestly for the fourth straight month, up 0.4pt to -14.3, though it still remained well below its long-term average and pre-Ukraine war levels. However, the recovery is expected to remain modest. That said, credit data indicated continued weak loan dynamics in April amid tight lending standards and higher borrowing costs, with private sector credit growth at just 0.9%YoY. Additionally, industrial production unexpectedly dropped 1.0%MoM and retail sales fell 0.9%MoM, offsetting fully March's 0.8%MoM increase. On the inflation front, both headline and core CPI surprised to the upside in May, indicating that the disinflation trend remains bumpy and sluggish. Headline inflation rose for the first time since December 2023, up by 0.2ppts to 2.6%YoY. This rise was primarily driven by the core rate which in April broke the five-month long streak of 4.0%YoY prints and eased to 3.7%YoY, before bouncing back to 4.1%YoY in May. Base effects were a key factor behind the renewed firmness in services inflation, while elevated wage growth amid persistent labour market tightness diminishes hopes for a significant slowdown soon. Labour costs increased by 1.5ppts to 4.9%YoY in Q1 2024 and negotiated wage growth surprisingly accelerated to 4.7%YoY from 4.5%YoY in Q4 2023, mostly driven by German one-off payments. Despite the renewed strength in May inflation data, the ECB delivered a well telegraphed 25bps rate cut at the 6 June policy meeting. However, amid elevated uncertainty about prospects for sustained disinflation, the central bank refrained from giving even an implicit signal about the future rate easing path.

Figure 12: Core CPI halted its downward trend in May due to a reacceleration in services inflation



Source: Eurostat, Research

Figure 13: Wage indicators surprisingly reaccelerated in Q1 2024



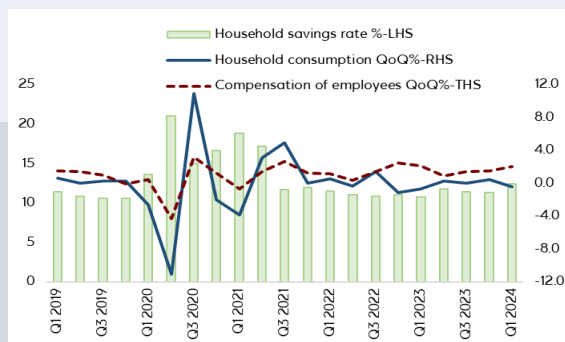
Source: ECB, Eurobank Research

Germany

The cyclical trough is likely behind us, but no strong upswing in sight

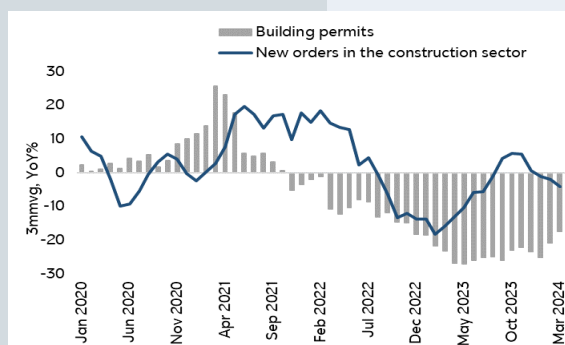
The economy expanded by 0.2%QoQ in Q1, in line with the first estimate reported in late April, allowing it to avoid a recession following a 0.5%QoQ contraction in the prior quarter. Construction investment was a key growth driver (+0.3ppts) due to favourable weather effects, while machinery and equipment investment had a neutral effect. Net trade also bolstered economic output (+0.3ppts), as exports grew more robustly than imports (1.1%QoQ vs. 0.6%QoQ). Conversely, private consumption detracted from economic activity (-0.2ppts) despite a one-year high increase of 2.1%QoQ in employment compensation. Households remain cautious about spending income gains, likely due to geopolitical concerns and domestic issues, such as the housing slump, preferring instead to increase their saving rate (+1.1ppts to 12.4%). Looking ahead, data paints a cautious outlook for the near future. While sentiment indicators suggest brighter prospects for Q2, challenges remain. The ZEW economic sentiment improved further in May to a more than two-year high (47.1) and the composite PMI recorded the second consecutive monthly reading above the expansionary threshold of 50 (+1.6pts to 52.2). The IFO remained stable in May (89.3) after a three-month rising streak, but forward-looking expectations improved across the board and the drop in current conditions is attributable solely to a decline in the service assessment. However, concerns persist about the sustainability of the construction sector's boost to economic activity. Construction orders remained on a downward trend in March (-1.9% on a three-month moving average), with more than half of companies in the residential construction sector (55.2%) reporting a lack of orders. Similarly, weak manufacturing orders (-0.2%MoM in April following a two-year high drop of 4.4%QoQ in Q1) raise doubts about the sustainability of net exports as a growth driver. Overall, while economic activity may have bottomed out, a sustained recovery is not yet in sight. The economy is expected to stagnate in Q2 and is unlikely to embark on a moderate upward trend before H2 2024, supported by easing financial conditions and improved private consumption as wages continue to rise and inflation resumes its downward trend after the May uptick due to base effects. Our annual GDP projection for 2024 has been revised slightly upward to 0.1% from 0.0%, although we still view the government's latest forecast of 0.3% as overly optimistic.

Figure 14: Households remain cautious about spending income gains and prefer instead to raise savings



Source: Destatis, Eurobank Research

Figure 15: A convincing recovery in the residential sector still looks a way off



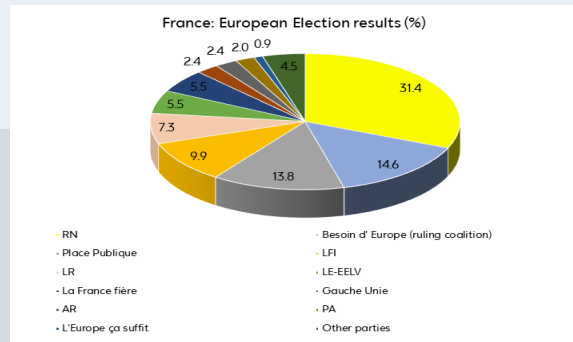
Source: Destatis, Eurobank Research

France

Macron calls snap elections after his centrist alliance lost heavily to far-right NR

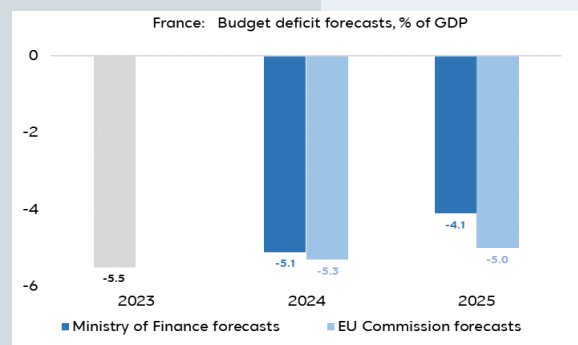
In a surprise move, President Emmanuel Macron decided to dissolve the National Assembly and call a snap general election after the heavy defeat of his centrist alliance, *Besoin d'Europe*, in the 9 June European Parliament election, to the far-right National Rally (NR) party. Macron's coalition secured just 14.9% of the vote, less than half of the vote received by Eurosceptic RN which came first, scoring 31.5%. As a result, early legislative elections will be held on 30 June (1st round) and 7 July (2nd round), well ahead of the 2027 presidential election (France's legislative election is based on a two-round majority-based system). While the outcome of the upcoming poll could differ from the EU parliament vote, the strong showing of the RN party points to an increased probability of Jordan Bardella, the far-right party leader, becoming the new prime minister. If this occurs, it would lead to a period of "cohabitation" (i.e., a period of government where the president and prime minister come from opposing coalitions). Amidst a wide array of plausible election outcomes, the prospect of a snap legislative election with a very tight time frame creates considerable political uncertainty. A government even more split than is currently the case, or an absolute majority for RN (though an absolute majority for pro-Macron parties cannot be ruled out completely), could have deep ramifications for recent structural reforms, EU relations and the direction of fiscal policy. The election outcome comes against the backdrop of recent jitters around France's public finances. S&P downgraded their credit rating from AA to AA- in late May, while, along with several other countries, France could be placed under an Excessive Deficit Procedure this summer due to the deficit slippage in 2023. The deficit increased by 0.7ppts to -5.5% of GDP, a significant deviation from the 4.9% forecast outlined in the 2024 budget bill. According to the EU Commission, the budget deficit is set to narrow only slightly this year to -5.3% and to -5.0% of GDP in 2025 (vs. the government's forecast of -5.1% and -4.1% of GDP, respectively). Meanwhile, a flurry of poor survey results (INSEE, & PMIs for May) and hard data (April's industrial production & retail sales) point to continued subdued growth in Q2 after the economy expanded by a slightly higher than expected 0.2%QoQ in Q1. Our annual 2024 GDP growth forecast has been revised a tad higher to 0.8% from 0.7%.

Figure 16: Strong showing of the far-right party RN in EU elections, poor performance of pro-Macron parties



Source: European Parliament, Eurobank Research

Figure 17: The EU Commission is less optimistic over the budget deficit in 2024 & 2025



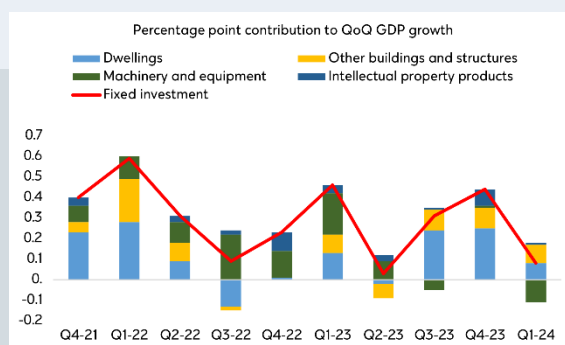
Source: European Commission, French government, Eurobank Research

Italy

Net trade drives Q1 growth; effects from Superbonus still present in GDP

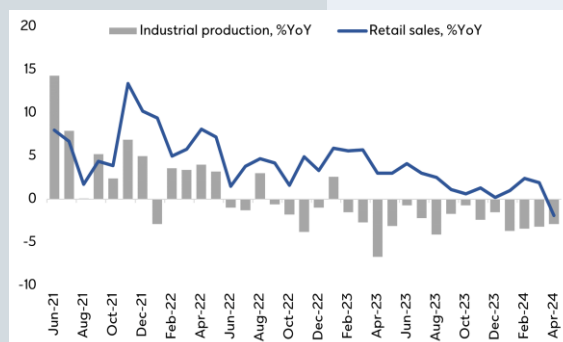
A controversial home renovation subsidy continued to play a role in driving Italian economic growth in Q1 2024, albeit smaller than in previous quarters. Gross domestic product grew 0.3%QoQ, the same as the euro-area average, up from 0.1%QoQ in Q4 2023. The biggest growth driver was net external trade, which contributed 0.7ppts to headline growth, as domestic demand subtracted 0.4ppts. However, that domestic demand drag came entirely from changes to inventories, which subtracted 0.7ppts, with both final consumption and gross fixed capital formation expanding in the quarter. While the latter contributed 0.1ppts to growth, that amount can be entirely accounted for by investment in dwellings. The expansion of fixed investment in dwellings has been driven by the so-called Superbonus scheme, which offered tax credits for home energy renovations that initially exceeded the sums invested. The programme was a major driver of Italian growth last year – contributing 0.3ppts to growth in Q4 2023 and 0.2ppts the quarter before that. However, it has thrown a bomb in Italy's public finances, being the main factor responsible for the 2023 fiscal deficit coming in more than 2ppts higher than projected in the 2024 budget. With the European Parliament elections now out of the way, the government, which has watered down and is phasing out the subsidy, is braced to be hit by an Excessive Deficit Procedure from the European Commission later this year. Turning to short-term growth prospects and the business survey data, manufacturing PMI slipped further into contractionary territory in May, falling to 45.6 from 47.3 in April. However, services remained above the 50 threshold for a fifth month, despite dropping 0.1pts to 54.2, while the composite PMI fell 0.3pts to 52.3. Meanwhile, retail sales fell 2%YoY in April after expanding 1.9%YoY in March – the first decline since February 2021 – while industrial output in April shrank 2.9%YoY, its 15th straight drop. On the inflation front, the headline rate of EU-harmonised inflation fell 0.1ppts in May to 0.8%YoY thanks to lower contributions from energy and food prices. Core inflation slowed by the same amount to 2.1%YoY. In a sign of ongoing tightness in the labour market, the unemployment rate unexpectedly dropped to 6.9% in April from a downwardly revised 7.1% the month before – falling to its lowest level since December 2008.

Figure 18: Dwellings investment has been a major driver of post-pandemic growth



Source: Eurostat, Eurobank Research

Figure 19: Retail sales fell in April for the first time in more than three years



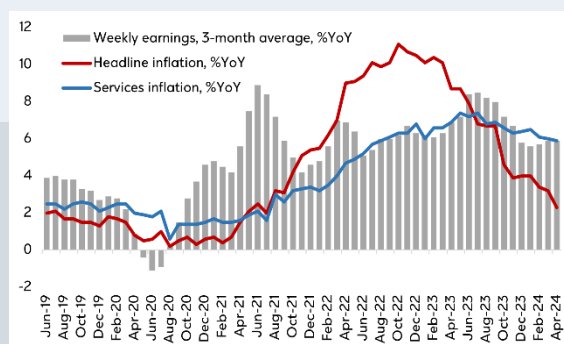
Source: Bloomberg, Eurobank Research

UK

Labour party heading for landslide; sticky inflation seen delaying interest rate cuts

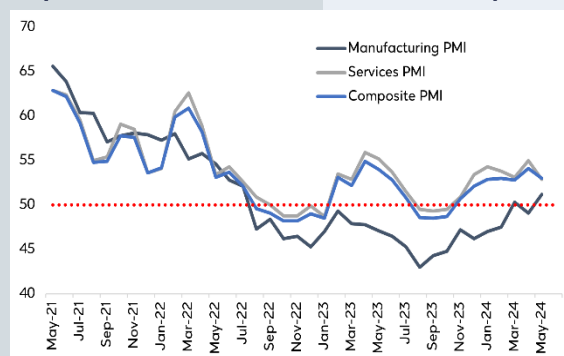
The new government that emerges after elections on July 4 will inherit an economy with some positive short-term growth momentum, but little fiscal space to tackle funding needs of public services. Composite PMI slowed in May to 53.0 from 54.1 the month before, but it remains comfortably above the 50 threshold that indicates improving operating conditions. Manufacturing PMI moved back above that threshold in May, increasing to 51.2 from 49.1, as services PMI fell to 52.9 from 55.0 in April. The data points to what should be another solid quarter of growth in Q2 2024 after a 0.6%QoQ GDP expansion in Q1 2024 recovered all the output lost during the technical recession in the second half of 2023. Against that, inflation is coming under control more slowly than anticipated. In fact, Prime Minister Rishi Sunak's surprise announcement of the election on May 22 overshadowed a CPI print that had made a splash earlier in the day when it came in hotter than expected, sending government bonds tumbling as markets reassessed how soon the Bank of England would cut rates. Headline inflation slowed to 2.3%YoY in April from 3.2%YoY the month before – a large drop due to the scheduled changes to rates in energy bills – but above the consensus estimate of 2.1%YoY. Similarly, the core CPI increased 3.9%YoY, down from 4.2%YoY in March, but 0.3ppts above the consensus estimate. As a result, the market-implied odds of the BoE cutting interest rates at its June 20 meeting have plunged to 4.9%, having been as high as 61% in mid-May. The first rate cut fully priced in by futures markets is now in November. Opinion polls point to the opposition Labour party winning the elections by a historic landslide, with Sunak's error-strewn campaign so far doing nothing to close Labour's 20-point lead over the Conservative party. Labour has promised that it will follow a fiscally prudent and pro-business agenda while in power, but will immediately face calls to increase investment in the UK's straining public services – something that the International Monetary Fund has also highlighted as a priority. However, the Office of Budget Responsibility has warned that the UK has virtually no fiscal headroom left to stabilise or reduce public sector net debt in the medium term from its current level near 90% of GDP. That gives an incoming Labour government a conundrum on how to finance increased spending, given that it has pledged not to increase income tax, VAT or national insurance contributions.

Figure 20: Services inflation remains high and close to level of earnings growth



Source: Bloomberg, Eurobank Research

Figure 21: The three main PMI readings all pointed above the 50 threshold in May



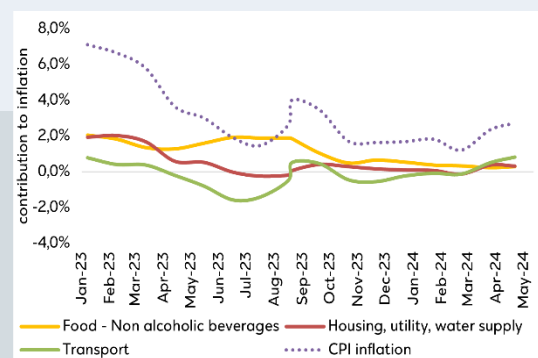
Source: S&P Global, Bloomberg, Eurobank Research

Cyprus

Improving investment outlook; uncertainly over export prospects remains

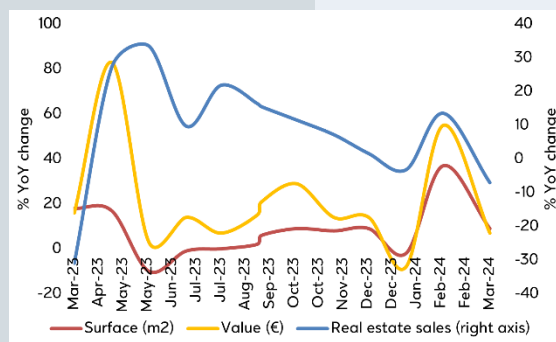
According to the analytical GDP data for Q1, growth accelerated to 3.4%YoY – 0.1ppts higher than the flash estimate – from 2.3%YoY in Q4 2023, with household consumption being the main growth driver (+3.7%YoY), on the back of a tight labour market (unemployment at a 15-year low for Q1 of 6.0%) and higher partial wage indexation. The external deficit retreated to 0.7% from 15.5% of the quarterly GDP a year ago, due to base effects from one-off extraordinary imports of ships (total imports fell 13.3%YoY), while exports rose fractionally (+0.4%YoY). But the improvement in the external balance came at the expense of gross fixed capital formation, which plunged 34.1%YoY. However, excluding the transport segment, the trend was positive (+9.8%YoY). On the production side, the boost to GDP came from a wide range of services sectors (retail trade, tourism, transport, ICT services), but also construction. The latest trends in short-term indicators of economic activity in Q2 are mixed. Tourist arrivals fell anew in April after January; however, the decline was mild also this time (-2.9%YoY after -2.7%YoY) and most probably is due to the early Catholic Easter holiday this year, that led to the 9.8%YoY increase in March. Thus, the May print will be a much more reliable indication of tourism dynamics this year. There's a change of trend also in the goods trade balance in April, with the deficit widening 25.5%YoY after the March fall, as the increase in imports exceeded that in exports. In the property sector, the recovery in real estate sales in April (+14.6%YoY) was reversed forcefully in May (-16.9%YoY), changing also the trend in the first five months of 2024 to small fall (-1.0%YoY). Credit expansion continued in April for the fifth month in a row (+1.2%YoY), with credit to non-financial businesses turned positive for the first time in 16 months (+0.3%YoY). Provided that these dynamics in credit supply will continue, together with real estate demand close to last year's level and the restart of RRF inflows, they could lead to an increase in investment this year despite the adverse Q1 print. The effects on household consumption from the rise in CPI inflation for a second consecutive month in May, to 2.7%YoY, up by 1.5ppts from the 38-month low of 1.2%YoY in March, could be mitigated by the regular annual wage indexation in June, concerning a significant part of wage earners (~40%), and a further extension of the disinflationary measures, given fiscal overperformance in the first four months this year (surplus of 2.1% of projected 2024 GDP). These mixed dynamics lead us to leave the forecast for 2024 unchanged at 2.9%.

Figure 22: The impact of higher fuel prices exceeds the effect of disinflationary measures on inflation



Source: CYSTAT, Eurobank Research

Figure 23: The volume of real estate sales that fell in May is highly correlated with building activity in 2024



Source: CYSTAT, Eurobank Research

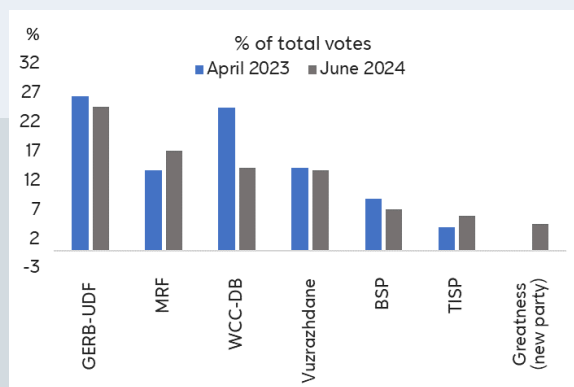
Bulgaria

Snap elections again fail to deliver a majority government

Following the parliamentary elections of June 9 held in Bulgaria, at the same time as the elections to the European parliament, the centre-right GERB-UDF gathered 24.7% of the votes and came first, enabling the party to hold 68 seats in the 240-seated parliament. However, that is far below from the required majority of 121 members of parliament. Seven parties made it into parliament, making it more fragmented and harder to form a majority government. Ethnic-minority MRF was second with 17.1%, followed by liberal WCC-DB with 14.3%, nationalist Vuzrazhdane with 13.8%, socialist BSP with 7.1%, TISP with 6.0% and the new party in the parliament Greatness with 4.7%. Almost all parties, including the election winner GERB, lost a visible share of their electorate compared

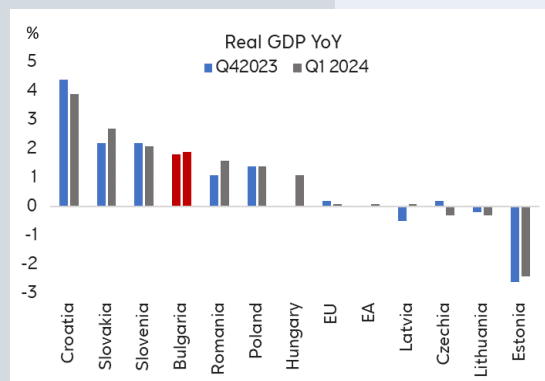
to the April 2, 2023 election as the turnout in this election was much lower compared to that of the previous election. Specifically, turnout is estimated at about 32%, the lowest since 1989, from close to 41% in April 2023, indicating fatigue from an electorate that has been called to the ballot six times in the last three years. The next day will most probably find the country with one of the following: a technocratic government by non-elected experts which should be appointed by elected parties; a coalition government between two or more parties; an additional snap election in case neither of the previous two options work out. Despite the lingering political uncertainty, the positive news is that the economy has not been widely affected. The detailed GDP growth print for Q1 2024 came in at 1.9%YoY in non-adjusted terms, 0.2ppts above the flash estimate and 0.1ppts above the Q4 2023 reading. Domestic consumption and investments were the key growth drivers as final consumption growth accelerated to 3.3%YoY in Q1 2024, from 2.5%YoY in the previous quarter, and investments increased by 8.4%YoY compared to 5.2%YoY in Q4 2023. The contribution of net exports did not change much as both imports and exports continued to contract for a fourth quarter in a row (-3.9%YoY and -2.5%YoY respectively in Q1 2024). Overall, growth risks appear broadly balanced as reflected in the recent sovereign recent credit reviews by rating agencies. Fitch in late April, and S&P in late May, reaffirmed the investment grade BBB rating of Bulgaria's public debt with both agencies keeping the outlook positive.

Figure 24: despite the fragmentation in the political scene mirrored clearly in the parliament ...



Source: Central Election Commission, Eurobank Research

Figure 25: ...growth held firm in Q1 2024



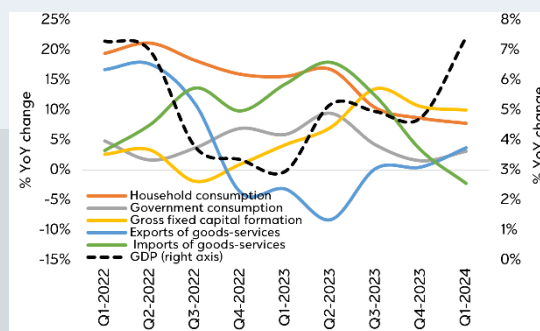
Source: Eurostat, Eurobank Research

Turkey

Fiscal policy moderately aligns with monetary tightening to curb inflation

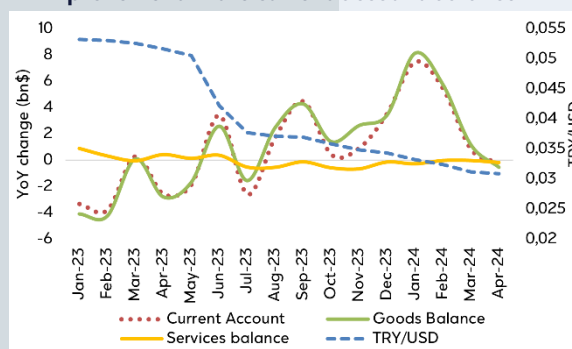
GDP growth accelerated to 7.4%YoY in Q1 2024 – a nine-quarter high – from 4.8%YoY in Q4 2023, with the spike almost entirely due to the improved external balance, as exports rose by 3.7%YoY – a six-quarter high – and imports fell for the first time in 10 quarters. Among the domestic demand components, only government consumption grew faster relative to Q4 (+3.2%YoY vs. +1.6%YoY). Household consumption retained a fast pace, slightly slower from the previous quarter (+7.8%YoY from +8.6%YoY), despite further inflation acceleration (66.8%YoY vs. 62.7%YoY) and robust gross fixed capital formation continued unabated (+10.0%YoY after +10.6%YoY). Private consumption was fueled anew by increases in the minimum wage and pensions since January and falling unemployment. But, given the central bank’s guidance to MinFin in April to align fiscal policy with the medium-term inflation target (5%) and the package of spending cuts announced in May for the same purpose, no mid-year minimum wage indexation is expected in 2024, as in 2022-2023. Accordingly, persistently high inflation will become the main drag on private consumption. The recent fiscal measures could weigh on investment and public consumption, as the target is to reduce the 2024 budget allocation for investment by 15% and for purchases of goods and services by 10%. That said, there are views that the actual fiscal consolidation will be milder than the estimates floated in the media, as the plan did not include explicit cuts targets. In any case, the latest policy rate hikes have led to credit contraction in real terms towards both non-financial businesses and households (-5.7%YoY and -7.2%YoY in April, respectively), a trend expected to continue, limiting their spending capacity. By contrast, rapidly expanding foreign direct investment (+25.0%YoY in Q1 2024), together with the reconstruction process after the earthquakes, could support gross capital formation growth in the next quarters. Recent credit rating upgrades (Fitch, S&P Global) are expected to sustain FDI net inflows. Regarding developments in the external sector, the current account deficit deteriorated in April for the first time in nine months, by 3.9%YoY. The deterioration came almost entirely from the goods balance, due to imports’ increase after eight months on a falling trend, with the rise being broad based among goods categories, thus it could extend in the coming months. This uncertainty over the dynamics of the external balance and the worsened outlook for consumption undermine the continuity of high growth in Q1, however the Q1 print and the robust investment momentum lead us to revise upward our growth forecast for 2024 by 0.5ppts, to 3.8%.

Figure 26: GDP growth at a nine-quarter high in Q1 almost entirely from improved external balance



Source: Turkstat, Eurobank Research

Figure 27: Weakened lira depreciation halted improvement in the current account balance



Source: Central Bank of Turkey, Eurobank Research

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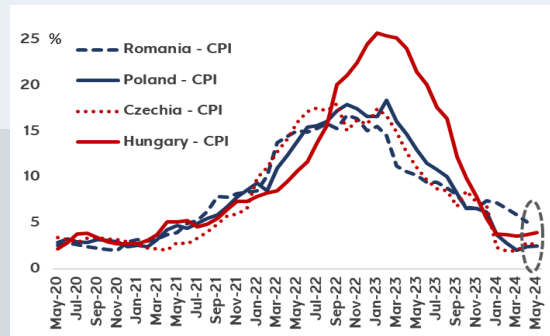
CESEE

Growth firm in Q1, yet sentiment indicators hard to break above 50

GDP growth in Q1 2024 proved to be solid in the region broadly, driven mostly by private consumption. Polish real GDP rose by 2.0%YoY in Q1 2024, accelerating from a 1.0%YoY growth rate in Q4 2023 and coming above both the 1.8% market consensus and the 1.9%YoY earlier flash estimate. Growth picked up also in quarterly terms, coming in 0.5% in Q1 2024 compared to a zero-growth rate in the previous quarter. In Hungary, the economy expanded by 1.1%YoY in Q1 2024 after stagnating in annual terms in the last quarter of 2023, and the quarterly reading also came in improved at 0.8% from the standstill previously.

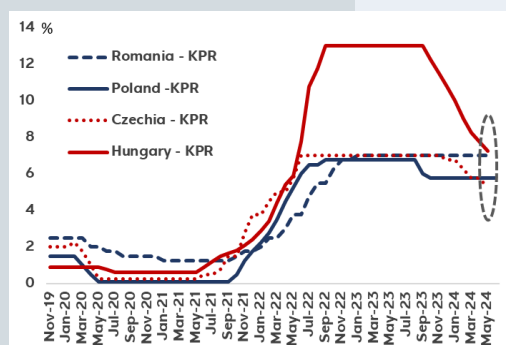
Growth dynamics in Czechia were less rosy, yet not disappointing. In its final reading, growth was estimated at 0.2%YoY in Q1 2024, keeping the same pace as in Q4 2023 with some loss of steam spotted when observing the last two quarters (0.3%QoQ in Q1 2024 vs 0.5%QoQ in Q4 2023). Finally, in Romania, GDP growth accelerated to 1.6%YoY/0.4QoQ from 1.1%YoY/-0.6%QoQ in Q4 2023. Inflation had a mixed performance by continuing to retreat in some economies and surging in others. In Poland, it came in at 2.5%YoY in May vs 2.4%YoY in April, spiking in a more pronounced manner in Hungary where it increased to 4.0%YoY from 3.7%YoY. On the flipside, in Czechia it slid to 2.6%YoY in May from 2.9%YoY in April and in a similar vein, but from a higher level, was the case for Romania (5.1%YoY vs 5.9%YoY in April). In the absence of a clear continuing disinflationary course, sentiment indicators released for the CEE3 and Romania also came in mixed. In Czechia, the gauge improved to 46.1 from 44.7 in April, according to figures from S&P Global, coming in above the 45.5 market expectation and marking a 21-month high. In Hungary, it remained unchanged at 51.8 in May, the logistics association MLBKT reported, hovering lower than the past three years average. In Poland, it retreated to 45.0 in May from 45.9 in April, marking a 25th straight month below the 50 threshold that separates expansion from contraction. The picture was somewhat better in Romania, as the PMI, released by S&P Global in co-operation with BCR, increased to 52.0 from 51.5.

Figure 28: Manageable, so far, hiccups in the disinflation process



Source: National Statistical Bureaus, Eurobank Research

Figure 29: ..could squeeze the available room of central banks for further rate cuts



Source: Central Banks of Romania, Poland, Czechia, Hungary, 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)		
	2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f
World	3.2	3.0	3.0	6.8	4.4	3.4									
Advanced Economies															
USA	2.5	2.4	1.8	4.1	3.2	2.4	3.6	3.9	4.1	-3.0	-3.1	-3.0	-6.5	-5.8	-6.0
Eurozone	0.5	0.7	1.4	5.5	2.4	2.1	6.6	6.6	6.5	1.7	2.1	1.9	-3.6	-3.1	-2.7
Germany	-0.2	0.1	1.2	6.1	2.5	2.2	5.7	5.9	5.7	5.9	6.5	6.2	-2.5	-1.7	-1.3
France	0.7	0.8	1.3	5.7	2.5	2.0	7.3	7.5	7.5	-1.4	-0.5	-0.6	-5.5	-4.9	-4.2
Periphery															
Cyprus	2.5	2.9	3.5	3.9	2.2	1.5	6.1	5.8	5.5	-12.1	-9.0	-7.0	3.1	3.5	3.7
Italy	0.9	0.9	1.1	6.0	1.2	1.8	7.7	7.4	7.4	0.5	0.9	1.2	-7.4	-4.8	-4.2
Portugal	2.3	1.5	1.9	5.3	2.4	1.9	6.5	6.6	6.5	1.4	1.3	1.4	1.2	0.2	0.0
Spain	2.5	2.1	1.9	3.4	3.1	2.3	12.2	11.7	11.4	2.6	2.3	2.3	-3.6	-3.2	-3.0
UK	0.1	0.6	1.5	7.4	2.5	2.2	4.0	4.3	4.4	-3.3	-2.8	-2.9	-5.0	-3.6	-3.1
Japan	1.9	0.4	1.1	3.3	2.4	1.8	2.6	2.5	2.4	3.6	3.8	3.6	-5.2	-4.2	-3.6
Emerging Economies															
BRICs															
Brazil	2.9	2.0	2.0	4.6	4.0	3.5	8.0	7.8	8.0	-1.4	-1.5	-1.7	-8.9	-7.2	-6.6
China	5.2	4.8	4.4	0.2	0.7	1.5	5.2	5.2	5.1	1.8	1.3	1.1	-4.6	-4.8	-4.8
India	7.8	6.8	6.5	5.7	4.8	4.5		NA		-0.8	-1.2	-1.3	-5.8	-5.1	-4.5
Russia	3.6	2.6	1.2	6.0	6.7	4.7	3.2	3.0	3.2	2.5	3.1	2.6	-1.9	-2.0	-1.5
CESEE															
Bulgaria	1.8	2.2	2.9	9.6	3.3	3.2	4.3	4.4	4.3	-0.3	0.2	0.2	-1.9	-2.9	-2.9
Turkey	4.5	3.8	4.0	53.4	57.2	28.2	9.4	8.9	8.6	-4.1	-2.5	-1.5	-5.3	-4.7	-2.0

Sources: European Commission, World Bank, IMF, OECD, Bureaus of National Statistics, Bloomberg, Eurobank Research

Eurobank Fixed Income Forecasts

	Current	June 2024	September 2024	December 2024	March 2025
USA					
Fed Funds Rate	5.25-5.50%	5.25-5.50%	5.04-5.30%	4.75-5.00%	4.44-4.70%
3m SOFR	5.34%	5.29%	5.08%	4.78%	4.43%
2yr Notes	4.87%	4.80%	4.56%	4.28%	4.06%
10yr Bonds	4.45%	4.46%	4.33%	4.19%	4.11%
Eurozone					
Refi Rate	4.25%	4.25%	3.60%	3.30%	3.00%
3m Euribor	3.74%	3.67%	3.40%	3.08%	2.81%
2yr Bunds	3.09%	2.70%	2.45%	2.28%	2.18%
10yr Bunds	2.67%	2.36%	2.25%	2.20%	2.22%
UK					
Repo Rate	5.25%	5.20%	4.85%	4.55%	4.20%
3m Sonia	5.18%	5.03%	4.63%	4.21%	3.95%
10-yr Gilt	4.29%	3.99%	3.81%	3.67%	3.65%
Switzerland					
3m Saron	1.35%	1.32%	1.15%	1.12%	1.00%
10-yr Bond	0.86%	0.80%	0.78%	0.79%	0.80%

Source: Bloomberg (market implied forecasts)

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