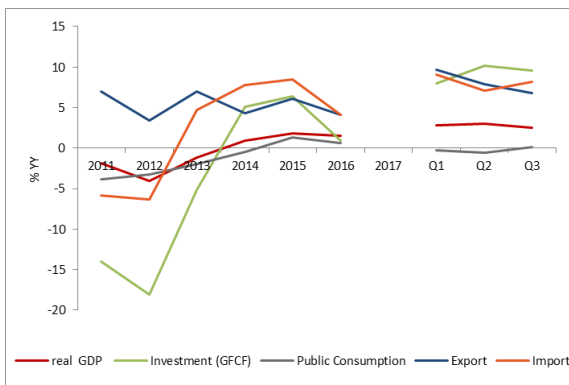


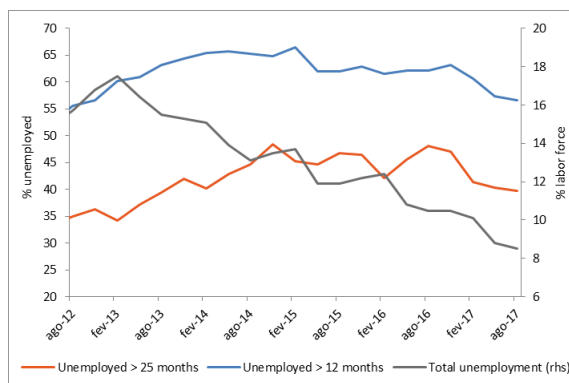
Portuguese economy continues with its robust recovery path, even at slightly lower pace

- GDP growth decelerates in the third quarter, with domestic demand continuing to accelerate and investment to decelerate
- Portuguese 10 Year yields vis-à-vis Germany drop to the lowest level in two years
- State financing conditions improve further, the issuance rates in OT auctions continue falling
- Financial sector shows slight progress in the improvements of asset quality and capitalization

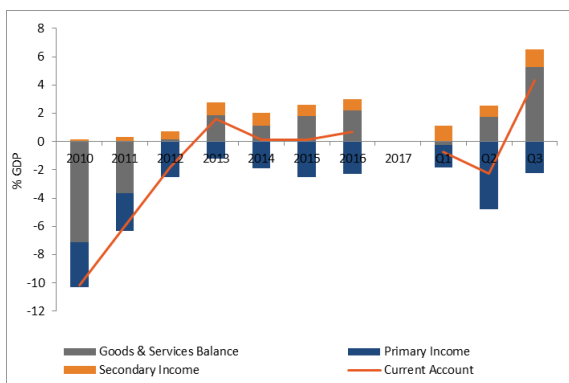
Macroeconomics - November



Source: INE



Source: INE, BiG Research



Source: Banco de Portugal, BiG Research

GDP growth slightly decelerates in the third quarter

GDP has grown by 2.5% in the third quarter, a slight deceleration after 2.8% growth in the first and 3% in the second quarter. Domestic demand remains the backbone of the economic recovery, with private consumption accelerating further (2.6% YY) and investment slightly decelerating (9.6% YY). Contribution from external demand turned negative (in contrast to the previous quarter), as imports (8.1% YY) continue growing faster than exports (6.8% YY). Public consumption for the first time this year slightly increased in the third quarter (0.2% YY).

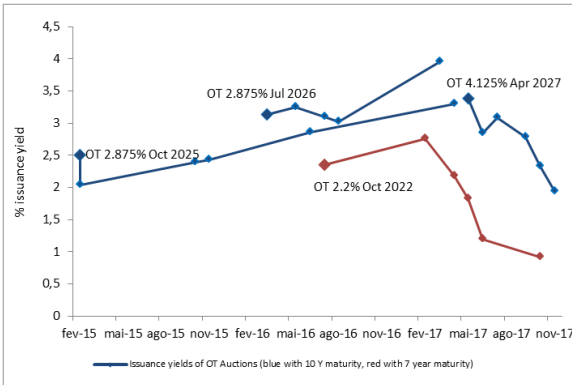
Unemployment falls further to 8.5 % in the third quarter

The unemployment rate in the third quarter dropped further to 8.5%, (8.8% in the second quarter), with the number of unemployed people having decreased by almost 20% in comparison to the same period last year. New employment has specifically been created in the accommodation & food service sector, characteristic for primarily low-skilled job profiles. The share of long-term unemployment among the total population unemployed remains alerting. The number of self-employed people decreased in the third quarter, to a total employment share of less than 20%.

Smaller current account surplus expected this year, despite strong net service exports

The current and capital balance accumulates to € 1.87 billion from January to September, € 350 million less than for the same period last year. The strong increase in the service balance (+1.5 billion in comparison to last year and mostly in form of service provision in the tourism sector) was unable to offset the reduction in goods balance (-1.9 billion in comparison to last year). The seasonally adjusted current account balance from January until September numerates to 0.5% of GDP. The current account balance for 2017 is estimated at 0.6% of GDP (IMF), a slightly weaker performance than last year (0.8% of GDP).

Primary Market - November



Source: IGCP, BiG Research

April 2027 - lowest yielding 10-year OT ever issued

Portugal has settled a further IMF loan repayment worth € 2.78 billion in November, making the total repayment for 2017 increase to € 9 billion (and increasing the total share of IMF loans already repayed to 76%). The debt auction of the 10-year maturity OT line Apr 2027 has further reached an issuance rate as low as 1.939%, making it the lowest yielding ten-year OT ever issued in the primary market. Further, a floating rate bond (OTRV) has been issued with a market premium of 1.1% (on top of the 6 month Euribor rate), half of the premium as offered in the first issuance of the series last year.

Secondary Market - November



Source: Reuters

10 Y Portuguese bund spread as low as two years ago

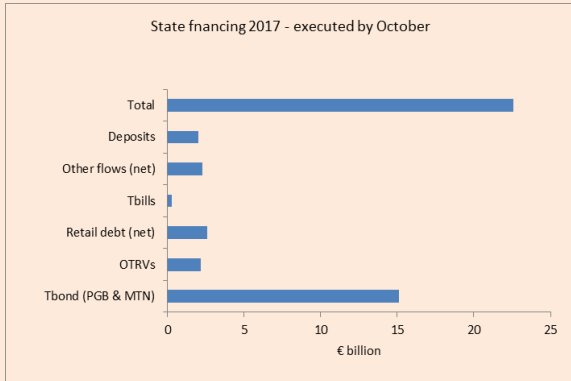
The 10 Y Portuguese yields continued to fall by additional 15 basis points (bps) in November, reaching its year-low level of 185 bps. The 10 Y Bund spread continued to compress by additional 20 basis points (as it was already the case in October) to 150 bps - a spread as narrow as last seen beginning of 2015. The 2s10s spread continued flattening, the 10s30s compressed slightly (in contrast to further steepening in October) due to first down movements in the 30 Y yields - likely to reflect the market anticipation of a second investment grading in December.

Financial Sector - Update

Slight process in the improvements of asset quality and capitalization

- Caixa Geral de Depósitos (CGD) contracted KPMG to help selling bad loans worth € 1.8 billion - corresponding to around 38% of its total amount of NPLs (estimated at € 4.7 billion). CGD already succeeded selling bad credit worth € 476 million to the private equity fund Bain Capital Credit in July this year.
- Novo Banco will be receiving additional € 250 million capital injection from its buyer Lone Star by the end this year (and not as requested by the selling agreement by latest 2020). The fact that Lone Star executes the Novo Banco's total capital injection of € 1 billion (of which € 750 million already implemented at the point of purchase in October) in such a timely manner not only sends a positive market signal but also displays Novo Banco's precarious current capitalization.
- The EU Council challenged the new ECB regulation that requests Euro area banks to set aside more cash to cover bad banks (effective as from 2018 and as presented in our last bulletin). Following the EU Council's legal position, the ECB - as a supervisory body - does not hold the mandate to impose binding capital measures on the banking system as a whole.

State financing – Role of Households



Source: IGCP (Monthly Bulletin November 2017), BiG Research

Households as an important source of state financing

State financing needs numerate to € 26.7 billion in 2017 (of which € 2 billion will be covered by state deposits). As reported in our last bulletin, Portugal has - given ongoing supportive financing conditions - increased its financing through the issuance of various debt instruments (tradable and non-tradable). Interesting now is to realize the important role households play in today's debt management of Portugal. From January until October this year, households (through net subscriptions of certificates and OTRVs) provide more than 20% of the state financing so far implemented this year (€ 22.6 billion). The floating rate bonds (OTRVs) gain popularity as households' savings alternatives.

Outlook – December

Base scenario: Second investment grading by Fitch - Dec 15th

After the unexpected S&P investment upgrade in September this year, the 10 Y Portuguese bond yields have dropped significantly (around 35 bps). Under our base scenario, Fitch will follow this rating decision and lift Portugal back up to investment grade coming month – after having issued Portugal “junk” status for more than 6 years. We consequently expect many large portfolio indexes (e.g. pension funds) to re-enter the Portuguese debt market (as many request investment grade issued by minimum two main rating agencies) and therefore still expect some further yield retracement on the long end of the Portuguese yield curve, namely the 30 Ys.

December	
Date	Event
11-dec	Global Trade Balance (m)
14-dec	CPI (MM YY)
15-dec	Fitch Rating Revision Portugal
19-dec	Current Account Balance (m)
21-dec	Catalonia Regional Parliament Election
27-dec	Unemployment rate (m)
28-dec	Business & Consumer Confidence (m)

Catalan regional elections: Large, unpredictable risk source – Dec 21st

After the illegal independence referendum on Oct 1st and the consequent dismissal of the regional government by Madrid end of October, Catalonia will hold new regional elections on Dec 21st, expecting to be the showdown in the Catalan independence question. With a large share of representatives of the pro-independence parties still being in jail, the voting outcome is highly unpredictable. Current polls predict a neck-on-neck race, with the pro-independence parties currently losing slight ground. We classify the upcoming regional elections as a considerably large and unpredictable risk source - not only for Portugal as a close economic partner but for Europe as a whole. As we stated in our last bulletin, the extraordinary political situation in Spain has not been treated as a systematic (Eurozone) risk by the markets yet. This could however change rapidly in the course of the election outcome.

MACROECONOMIC DEVELOPMENT	BIG Assessment						Forecasts***			
	Development 2017						IMF	Ministry of Finance		
	2014	2015	2016	Q1	Q2	Q3		2017 P	2017 P	2018 P
Real Economy (YoY, % change)										
GDP	0,9	1,8	1,5	2,8	3,0	2,5	↑	2,5	2,6	2,2
Private Consumption	2,3	2,1	2,1	2,4	2,0	2,6	→	2,2	2,2	1,9
Public Consumption	-0,5	1,3	0,6	-0,3	-0,6	0,2	↓	0,6	-0,2	-0,6
Investment (GFCF)	5,1	6,4	0,9	8,0	10,1	9,6	↑	6,9	7,7	5,9
Imports	7,8	8,5	4,1	9,1	7,1	8,1	↑	7,6	8,0	5,2
Exports	4,3	6,1	4,1	9,7	7,9	6,8	↑	7,3	8,3	5,4
Fiscal Account (%GDP)										
Primary balance	-2,3	0,2	2,2	2,2*	1,6*		↑	2,6	2,5	2,7
Budget balance	-7,2	-4,4	-2,0	-1,6*	-2,1*		→	-1,5	-1,4	-1,0
Public debt	130,6	128,8	130,2	128,3*	129,8*		→	125,7	126,7	123,5
External Accounts (%GDP)										
Current Account	0,1	0,1	0,7	0.23**	0.05**	0.23**	→	0,6	-0,1	0,1
NIIIP	-117,5	-112,0	-104,7	-102,2	-103,4	-103,8	→			
Gross External Debt	236,5	222,5	215,4	212,1	212,0	-	→			
Labour market (YoY, %change)										
Unemployment Rate	13,9	12,4	11,1	10,1	8,8	8,5	↑	9,7	9,2	8,6
ULC	-0,6	0,8	2,1	1,1	0,9	2,0				
Labor Productivity	-0,5	0,2	-0,2	0,6	0,5	0,8	↑			
Sentiment Indicators										
Consumer Confidence Indicator	-4,3	-1,2	-0,9	-4,7	0,0	2,1	↑			
Industrial Confidence Indicator	-4,3	-1,2	-0,9	1,5	2,4	1,3	↑			
Financial Sector										
Tier 1 Ratio	10,5	11,3	11,5	12,7	13,2	-	↑			
Return on Equity	-18,1	0,5	-3,2	-0,1	-0,3	-				
Share of NPLs (NFC; % of total loans)	14,6	15,9	16,0	15,5	15,2	14,7	→			
Monetary/FX										
Inflation, HICP (YoY, % change)	-0,2	0,5	0,6	1,4	1,7	1,3	↑			
PGB 10Y-Bund Spread (Bps)	211,2	184,9	336,2	368,0	281,9	250,4	↑			
EUR/USD	1,2	1,1	1,1	1,1	1,1	1,2				
Real effective exchange rate (1999=100)	95,4	87,0	89,3	88,1	89,1	92,4				

Source: INE, Banco de Portugal, ECB, Reuters, DG ECFIN, OECD

*quarterly data available used for calendar year projection, **seasonally adjusted,

*** IMF Article IV country report projections, Ministry of Finance projections as accounted for/published in the State Budget 2018

Cross-Country Bund Spreads					
Bps	France	Spain	Italy	Portugal	Greece
2y	13	36,1	35,5	43,6	357,2
5y	15,9	50,4	78,7	80,6	449,8
10y	30,9	107,3	136,5	149,9	501,9
30y	45,5	151,4	172,2	202,1	692,9
Δ 1M					
2y	-4,3	-2,9	-17,6	-18,7	-27,4
5y	-4,4	-4,9	-17	-31,3	-33,4
10y	-8,5	-2,3	-9,9	-21	-13,9
30y	-4,8	0,9	-5,8	-22,2	3,3

Source: Reuters, retrieved on November 30th, 2017

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