

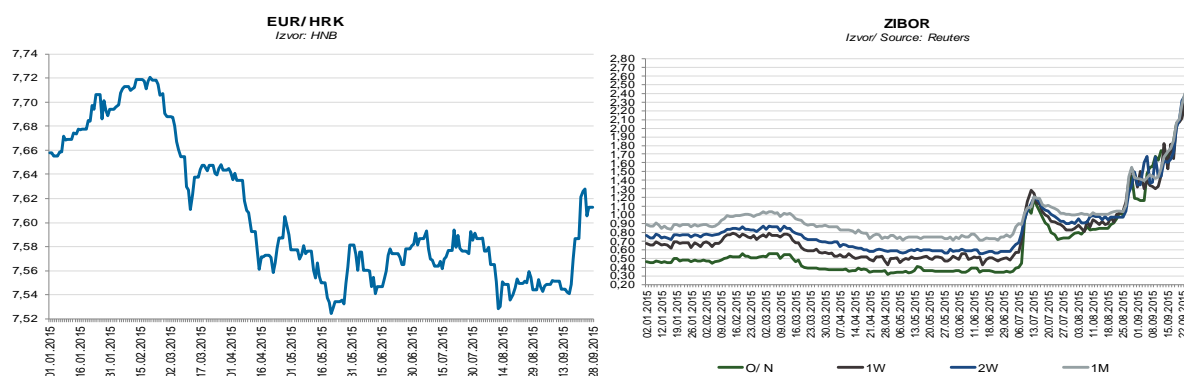
PBZ Weekly Analysis

Number 488, September 28, 2015

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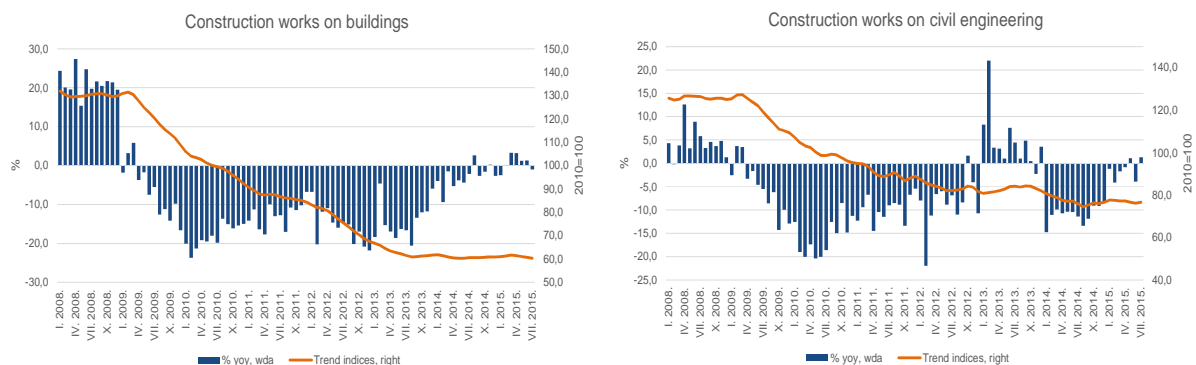
Weekly overview

- Following the episodes of a 7.64 growth, the EUR/HRK exchange rate ended the week at 7.6126 kuna to the euro, i.e. up by 0.3% wow (CNB mid); market rate at 7.6385. The interest rate increase continued and the overnight Zibor closed the week at 2.30% (vs 2.05%), while 1M and 3M at 2.47% (vs 2.06%), or 2.54% (vs 2.04% the previous week), respectively. Thus, interest rates reached their highest levels over the past 27 months, while movements in the FX market resemble those at the beginning of February, i.e. the fixing of the franc at 6.39 kuna.



Specifically, when the Ministry of Finance by the end of August announced their intention to apply a new legislation enabling the bank clients to convert loans denominated in the Swiss franc into the euro, at the historical exchange rates valid on the day of the realisation of the loan, the reaction of the domestic financial market was expected. As the conversion is made at historical rates and bank losses are recorded in the kuna currency, with a simultaneous decrease in FX assets, banks must provide a substitute by purchasing FX assets with regard to the kuna assets. Therefore, financial institutions were immediately aware that for the projected losses they will have to buy the same amount of the foreign currency in the FX market, under a limited kuna liquidity. As indicated, the market reaction was logical, with a consequential EUR/HRK exchange rate growth from 7.57 to the current 7.64 level; interest rates in the money market increased above 4% in deposit trading, while in FX SWAP transactions (placement of HRK in exchange for receiving EUR) even above 5%, whereas ZIBOR reached the above mentioned levels of 2.5%. The main problem is in a misperception of the so-called high kuna liquidity at the level of a 5-6 billion in the system, which in fact is true, however, its inequal distribution among banks is at issue, therefore some participants must make large efforts with high costs in order to fulfill the regulatory requirements regarding liquidity. The role of the Croatian National Bank (CNB) in the current uncertainty and volatility in the financial markets is substantial, as the only way that prevents an escalation of the situation is that, along with a release of some forms of mandatory reserves, the CNB intervenes by selling foreign currency in the FX market, specifically, in an amount sufficient to cover the bank FX positions resulting from the implementation of the amendments to the Consumer Credit Act.

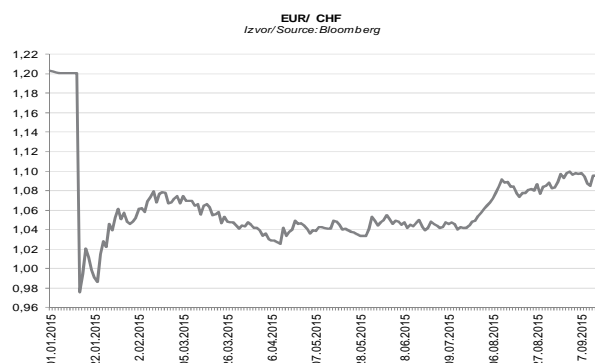
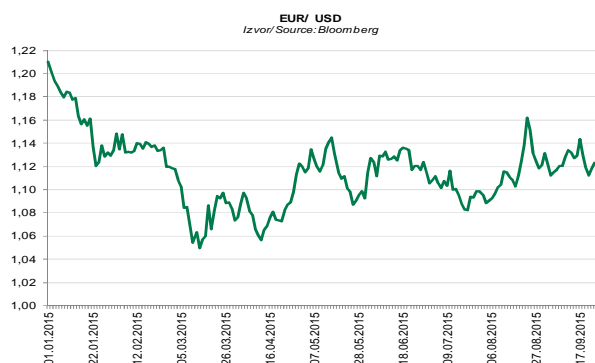
- According to gross indices, the construction work index in July stagnated from July 2014, while, wda indices show a growth of 0, 4%. Seasonally adjusted construction works recorded a 0.8% growth mom. And, while the construction of buildings showed signs of life over the past five months, a new fall in the activities was recorded in July, by 1.0% compared with July 2014. At the same time, other civil engineering works recorded a growth of 1.3%, however, it is only the second month of the recorded growth since July 2014. Over the first seven months, the overall construction activities decreased by 0.6% according to gross indices, or 0.3% according to wda data and, as we do not expect major changes in the dynamics by the end of the year, it is highly probable that the decrease in the construction activities will average around 0.5% in 2015.



- The first results show a stagnation in the August unemployment rate at 15.9%, the same as the month before. It is clear that the positive influence of seasonal employment is beginning to diminish and, as autumn approaches, the unemployment rate might slightly rise. The released preliminary data on the movements in the average net earnings and gross earnings show that the net earnings for July amounted to 5,716 kuna, down by 1.6% mom or up by 3.4% yoy. In addition, the survey unemployment data were released showing the survey unemployment rate of 15.5% in the second quarter of this year, or 1.1 p.p. less compared with the same period last year, whereas, the comparison with the previous quarter show a decrease of 2.6 p.p. Detailed data on the labour market trends will be released on Wednesday.

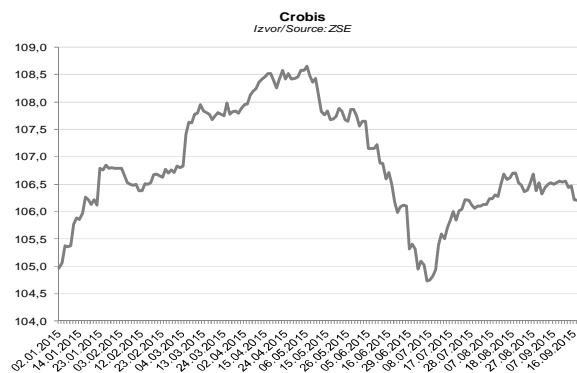
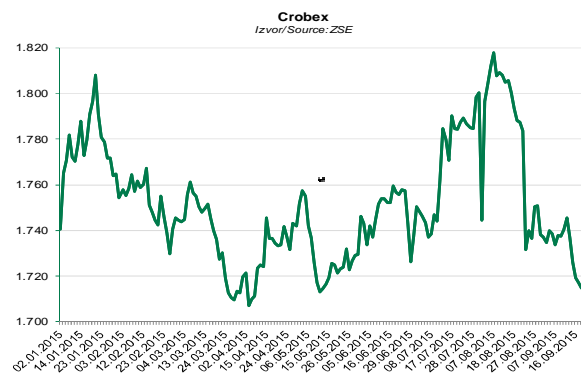
Dollar strengthens

The Fed Chairwoman Yellen's statement on a potential rise in the reference rate before the end of this year led to a substantial strengthening of the US dollar, therefore the trading on Friday closed at 1.1195 dollar to the euro, 0.9% less wow. On the other hand, the Swiss franc closed the week at 1.0959 franc to the euro, 0.13% more wow.

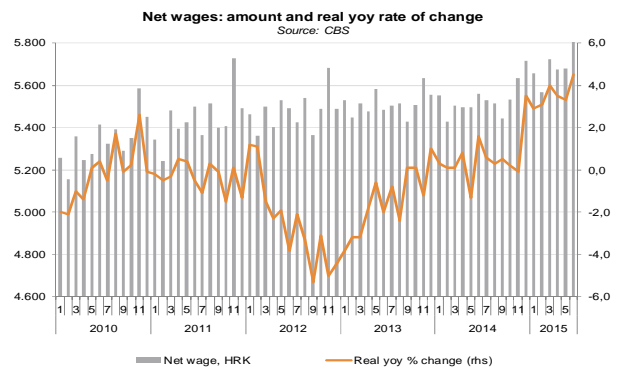
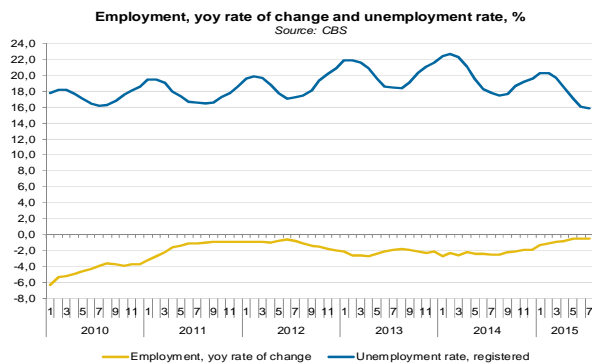
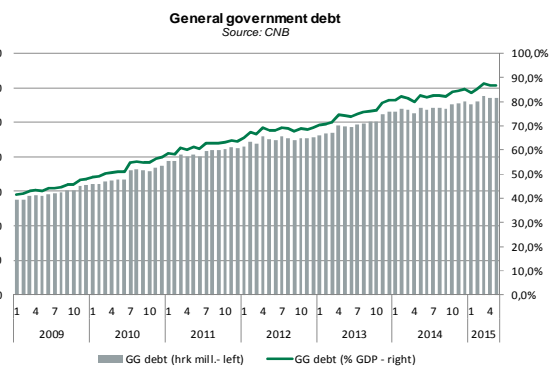
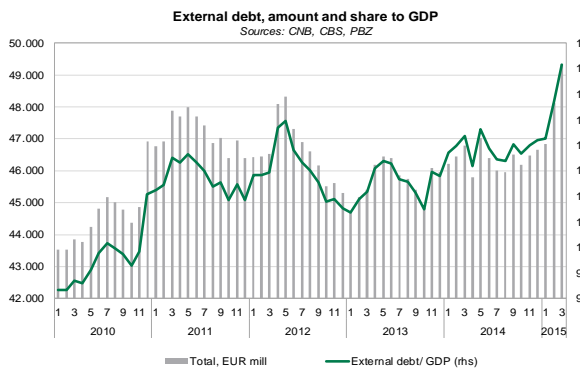
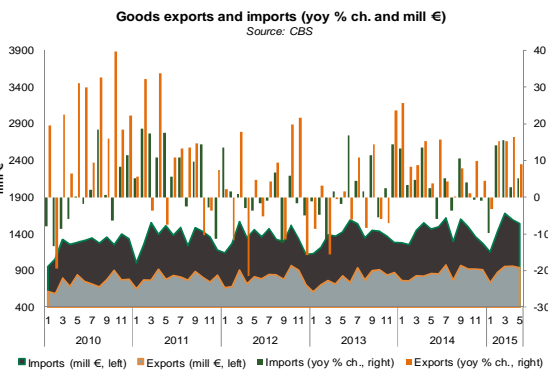
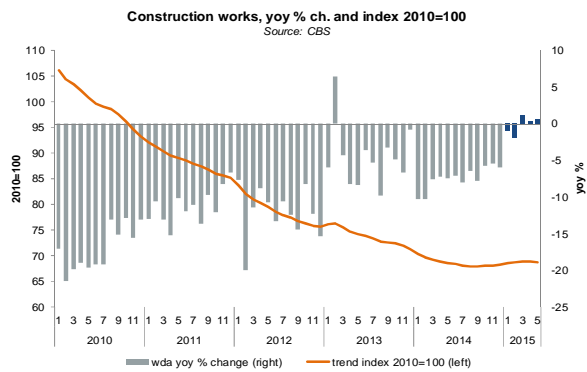
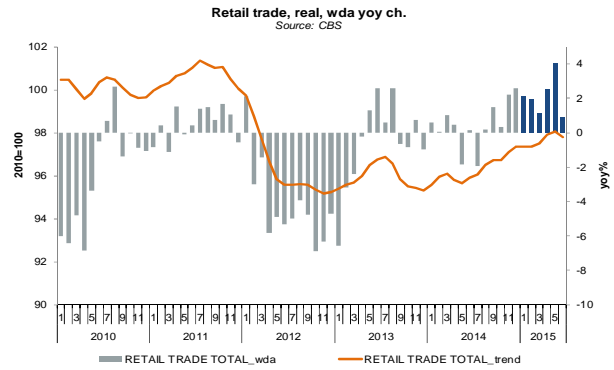
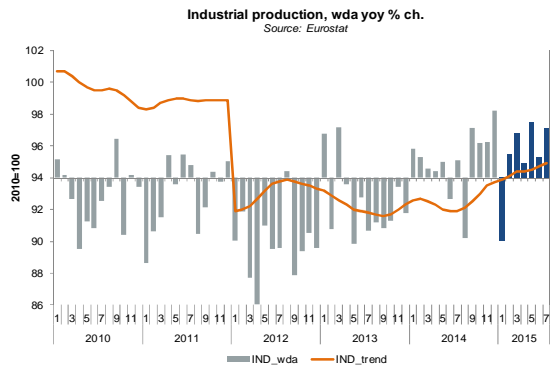


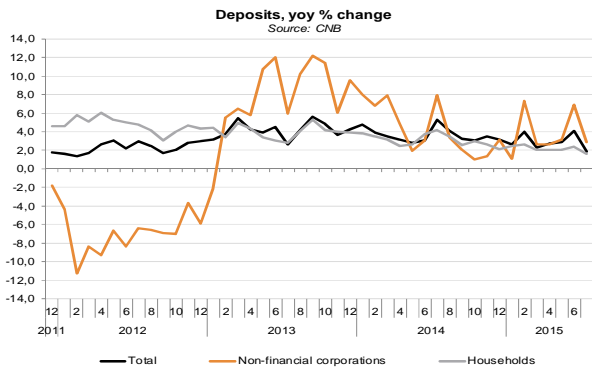
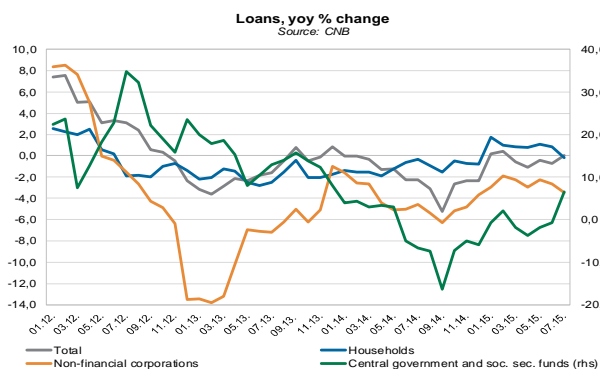
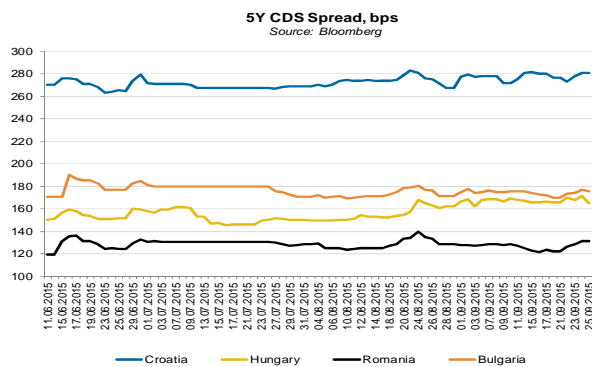
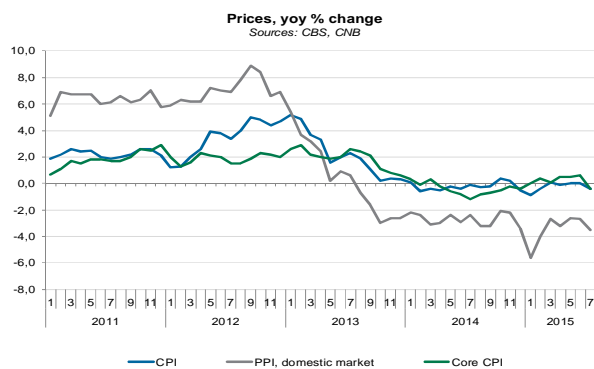
Index drops

Last week, the Crobex closed at 1,689.23, i.e. losing 1.5% wow, whereas the Crobis closed the week at a 1.0% lower level, i.e. at 105.11. The total turnover in the ZSE decreased by almost 1/3 wow, amounting to 383 million kuna, where the turnover in bonds decreased by 1/4 to 350 million kuna. The turnover in shares dropped to 32 million kuna, from 85 million kuna recorded the week before.



Statistics and macroeconomic forecasts





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