

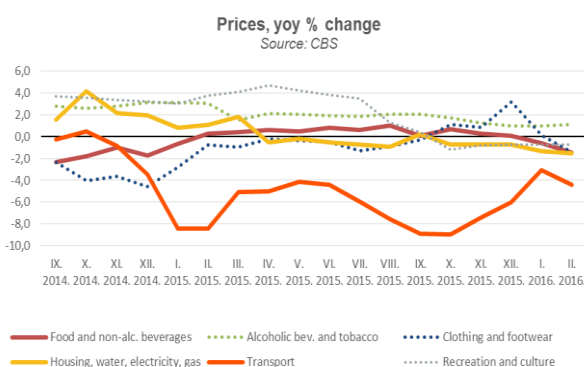
PBZ Weekly Analysis

Number 509, March 21, 2016

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Weekly overview

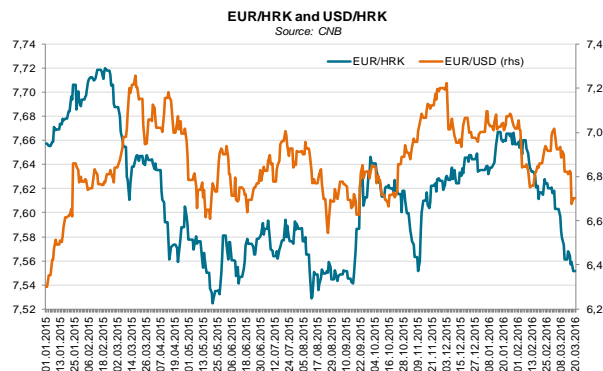
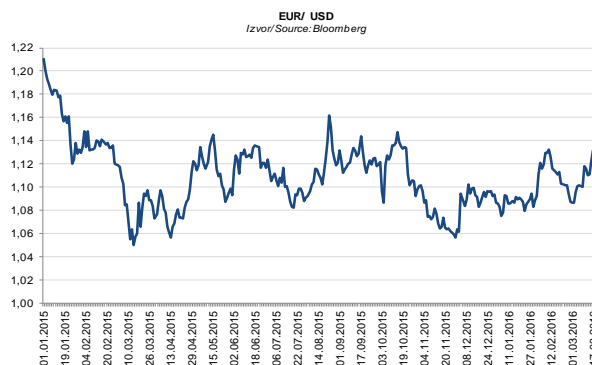
- The manufacturing prices of industrial products in February fell by 5.3% yoy (-0.7% mom), mainly (according to GIG) due to a decrease in the prices of Energy (by 12.9%), Consumer non-durables (-1.4%), Capital goods (-0.4%) and Consumer durables (-0.2%), while a slight increase in the prices was recorded in Intermediate goods (by 0.1%). February saw a decline in consumer prices of -1.4% yoy, which is the sharpest drop since the Croatian Bureau of Statistics' first publication of the consumer price index movements. The indicated index decreased by 0.3% mom, while the twelve-month average remained at -0.5%. The largest contribution to the decrease in the consumer price index in February 2016, compared with February 2015, was recorded by the prices of Transport (by -0.5 p.p., of which fuel by -0.4), Food and non-alcoholic beverages (by -0.4 p.p.), Housing, water, electricity, gas and other fuels (by -0.3 p.p.), and Clothing and footwear (by -0.1 p.p.). On the other hand, positive contribution came from higher prices in the categories Alcoholic beverages and tobacco and Health, both by +0.1 p.p. In the upcoming period, the movements of the consumer price index will still be affected by the oil price trends in global markets and potential lower prices of gas for households from 15 to 20%.



Investors focus on FOMC

Last week, investors turned their focus from ECB to FOMC (Federal Open Market Committee), which, as expected, maintained dollar interest rates at the current levels, however, according to the Fed's Chair Yellen, interest rate hike is likely to occur at the April meeting. The latter prompted an increase in the euro to the levels above 1.13, however, the gain was partly wiped out on Friday and the trading closed at 1.1270 dollar to the euro, up by 1.0% wow.

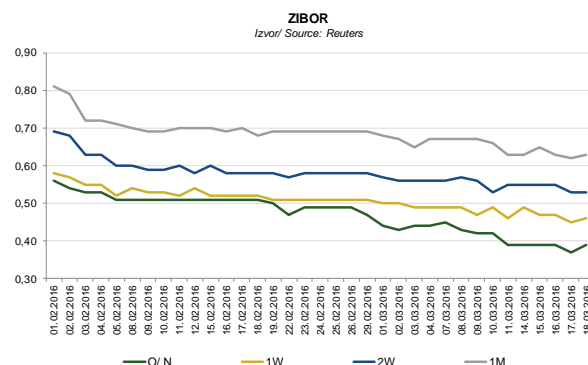
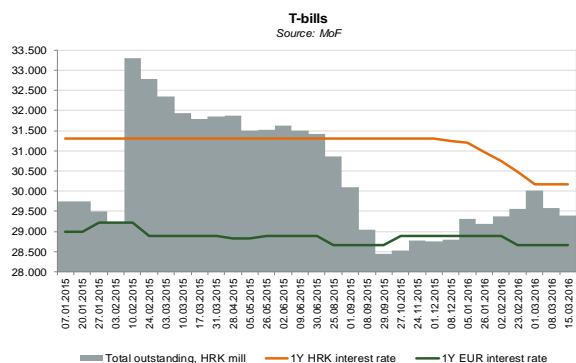
The decrease in the EUR/HRK exchange rate has continued, as a result of higher supply and very poor demand for foreign exchange, therefore, the trading hit a new lowest level of 7.52 this year. The mid-exchange rate on Friday amounted to 7.5517 kuna to the euro, down by 0.1% wow, while the kuna against the dollar weakened by 1.7% to 6.7019 kuna to the dollar. This week, we expect the trading to range from 7.51 to 7.55 kuna to the euro.



No impact of bond issue on interest rates

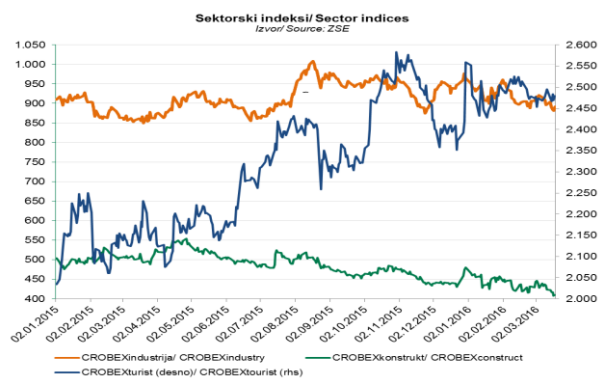
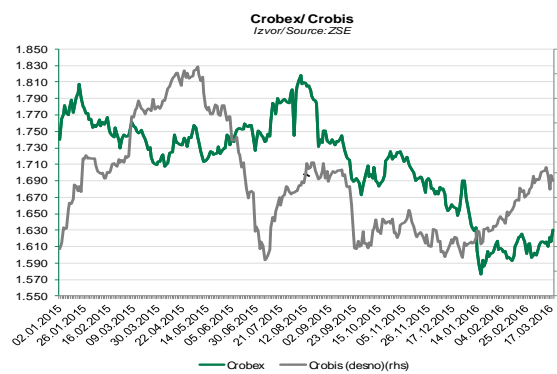
At the last week's regular reverse repo auction, a total of 146 million kuna at the fixed repo rate of 0.5% was injected into banks, the same as the previous week. The total ZMM turnover barely amounted to 55 million kuna, while supply exceeded demand by an average of 346 million kuna per day. The market was calm, therefore, due to ample liquidity, even the government kuna bond issue of 4 billion kuna did not lead to an interest rate shift. The overnight, 1M and 3M Zibor closed the week unchanged at 0.39%, 0.63% and 0.83%, respectively, wow.

The MF T-bill auction saw a subscription of 352 million kuna in one-year T-bills with an unchanged yield of 0.99%, thus the government debt under T-bills lowered to 29.4 billion kuna. There will be no maturity this week and no auction.



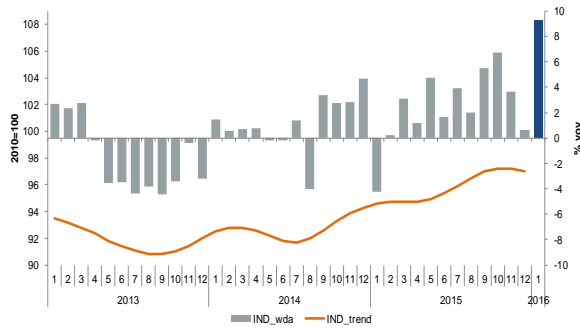
Sector indices in negative territory

The total ZSE turnover was 60.8% higher from the previous week, amounting to 568 million kuna, as a result of a 23% growth in the share turnover of 37.8 million kuna and a 64.4% higher turnover in bonds, reaching 529 million kuna. The Crobex index rose by 1% wow, closing the week at 1,630.32 points, while the Crobis closed the week at 106.34 points, i.e. at a 0.2% lower level from the week before. Sector indices closed the week in negative territory, thus CROBEXconstruct ended at 409.95 points (-3.3% wow), CROBEXindustry at 891.60 points (-0.7% wow), while CROBEXtourist closed the week at 2,478.92 points, or at a 0.6% lower level compared with the previous week.

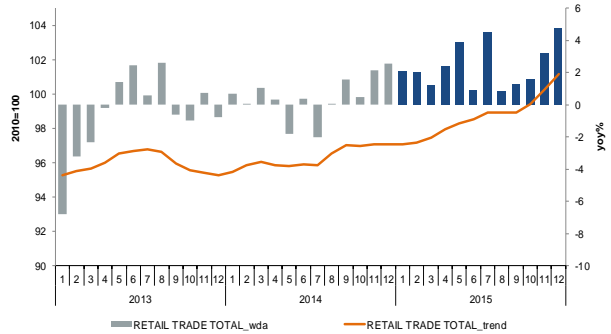


Statistics

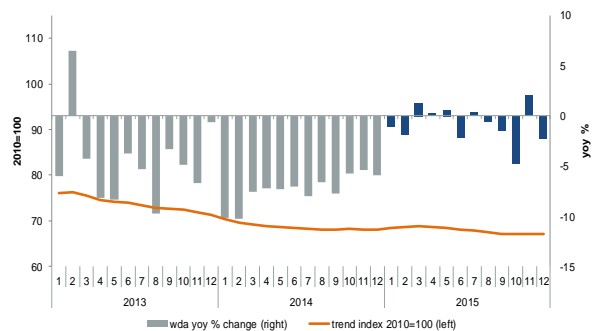
Industrial production, wda yoy % ch.
Source: Eurostat



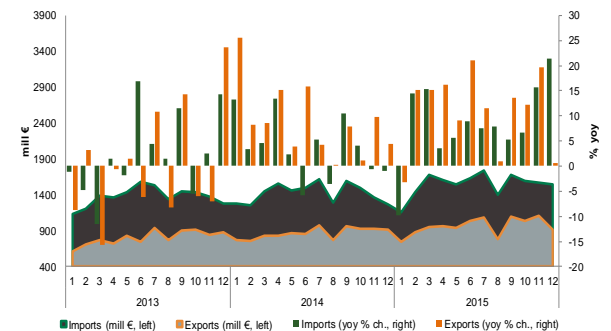
Retail trade, real, wda yoy ch.
Source: CBS



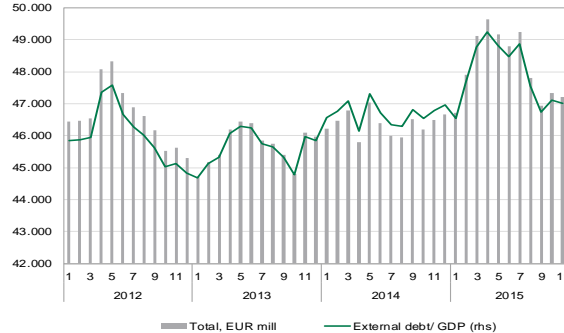
Construction works, yoy % ch. and index 2010=100
Source: CBS



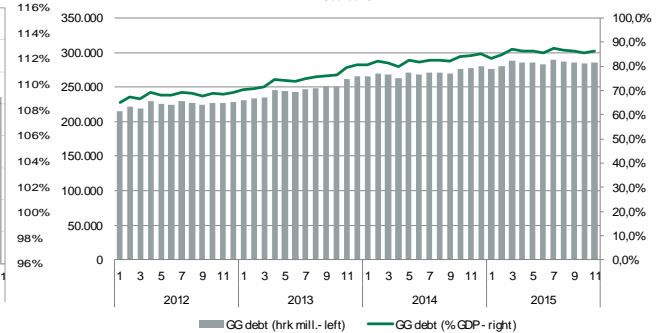
Goods exports and imports (yoy % ch. and mill €)
Source: CBS



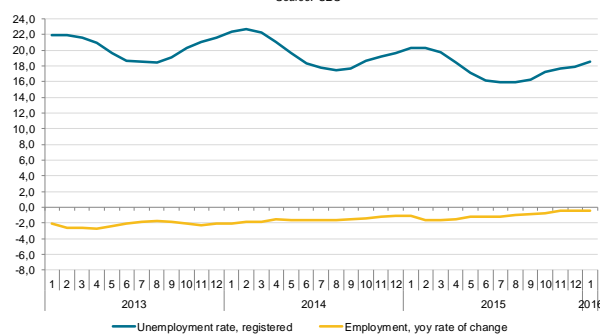
External debt, amount and share to GDP
Sources: CNB, CBS, PBZ



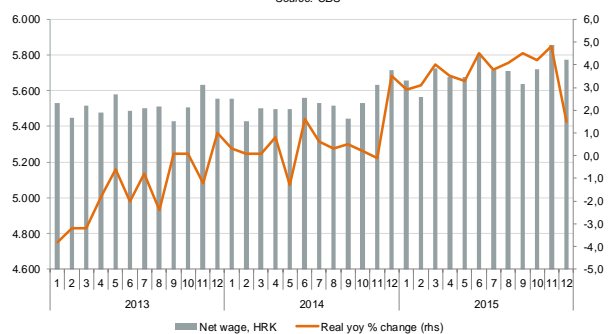
General government debt
Source: CNB

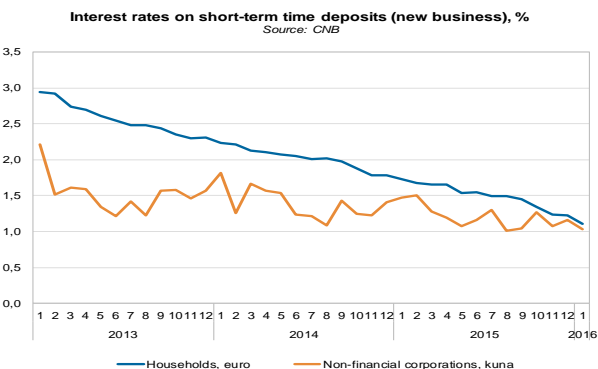
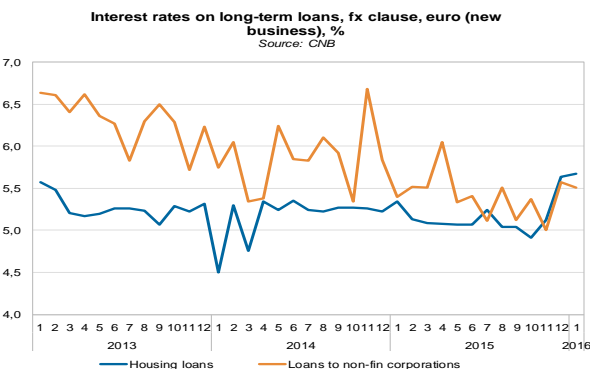
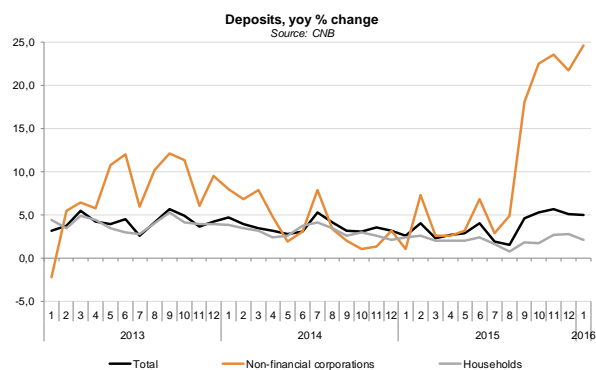
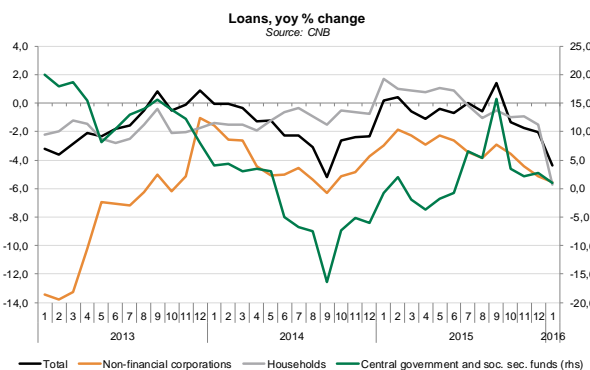
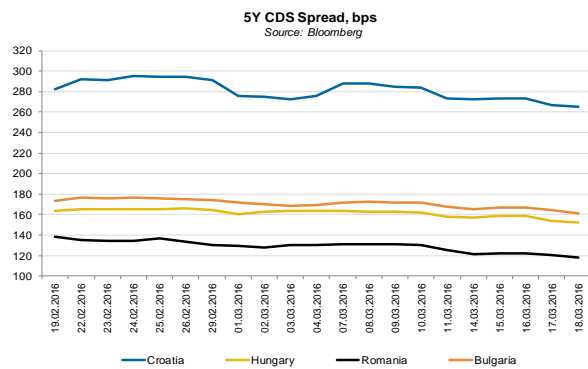
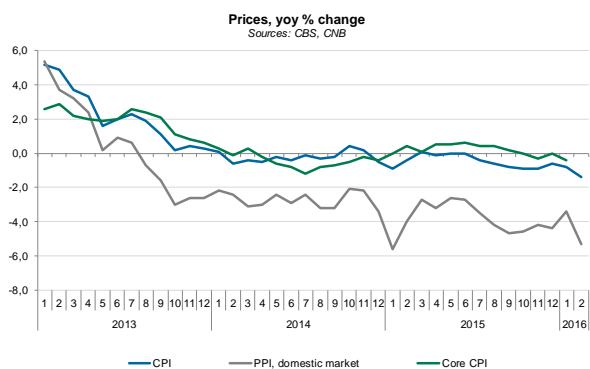


Employment, yoy rate of change and unemployment rate, %
Source: CBS



Net wages: amount and real yoy rate of change
Source: CBS





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