

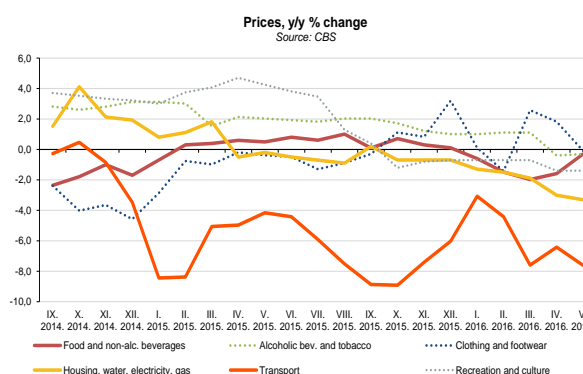
PBZ Weekly Analysis

Number 525, July 18, 2016

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Weekly overview

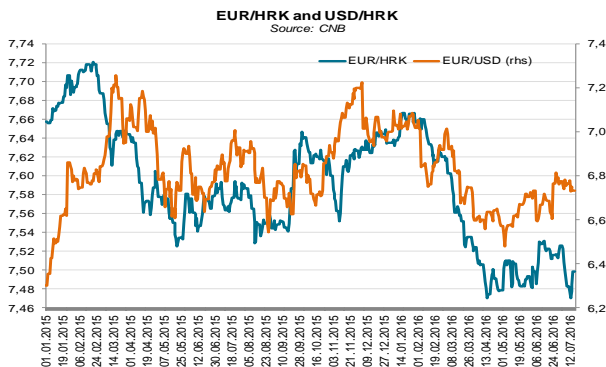
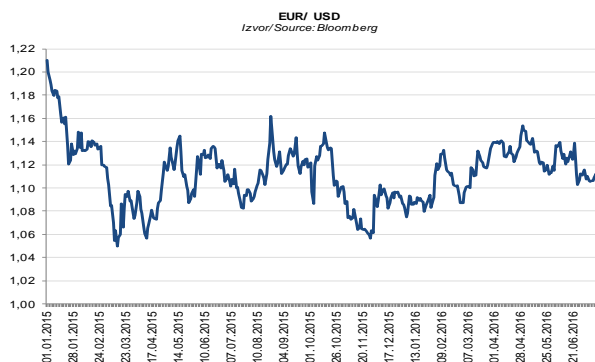
- According to the data of the Croatian Bureau of Statistics, the consumer price index for June 2016 decreased by 1.6% yoy (reaching a record -1.8% in May), while the indicated index dropped by 0.1% mom. The twelve-month average fell to -1.1%. The largest contribution to the yoy index fall was made by the prices of Transport (by -0.8 p.p., of which fuels by -0.7 p.p.), Housing (by -0.4 p.p., of which gas -0.5 p.p.), Communication and Food (both by -0.2 p.p.), Clothing and Footwear as well as Recreation and culture (both by -0.1 p.p.). On the other hand, a positive contribution came from increased prices in the categories Health, Non-alcoholic beverages and Restaurants and hotels (each by 0.1 p.p.). In the first half-year of 2016, the consumer price index declined by 1.5% yoy (-0.2% in 1H2015), as a result of low oil prices in the international markets, but also due to the administratively cut household gas price in April. We expect a gradual reduction in deflationary pressures in the second part of 2016.
- The real retail trade in May soared by 3.9% yoy (wda data), while the comparison with April shows an increase of 0.7% (seasonally and working-day adjusted data). Due to positive signs in the labour market, the real net earnings growth and good tourism indicators, retail trade recorded a yoy growth of 3.4% over the first five months of 2016 (+2.2% over the same period of 2015).



Pound recovers

The EURUSD exchange rate was stable last week, on the eve of this week's ECB meeting, therefore trading closed on Friday at 1.1035 dollar to the euro, ending the week down by 0.1% wow. After falling for three weeks, the pound is recovering, recording a growth of 2.0% against the euro and 1.8% against the dollar.

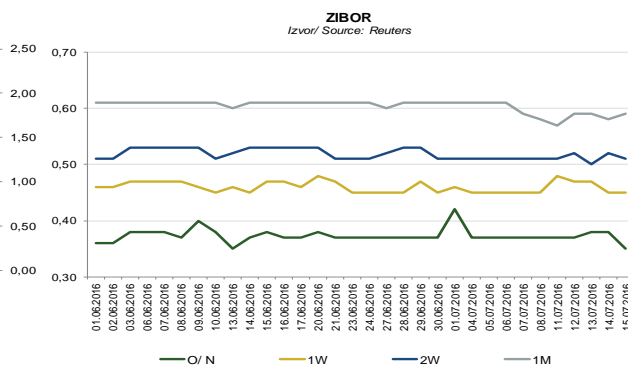
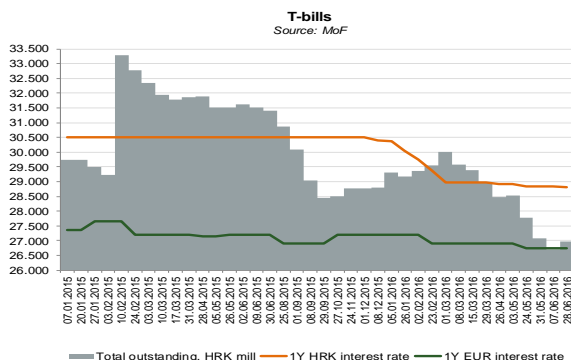
Last week was very interesting in terms of the volumes realised in the domestic foreign exchange market, where EURHRK traded in the range from 7.4750 to 7.5150. The mid-exchange rate at the end of the week amounted to 7.4989 kuna to the euro, up by 0.2% wow, while the kuna against the dollar strengthened by 0.5% to 6.7315 kuna to the dollar. We are heading towards the peak tourist season, where increased FX inflows drag the exchange rate down, thus enabling corporate and investment clients to purchase the euro under more favourable terms. This week, we expect trading in the range 7.48-7.51 kuna to the euro.



Third structural repo auction held

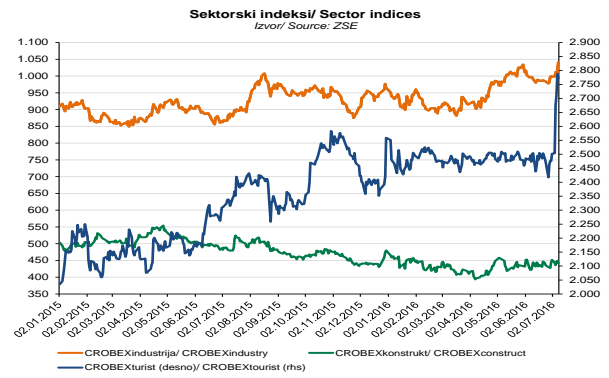
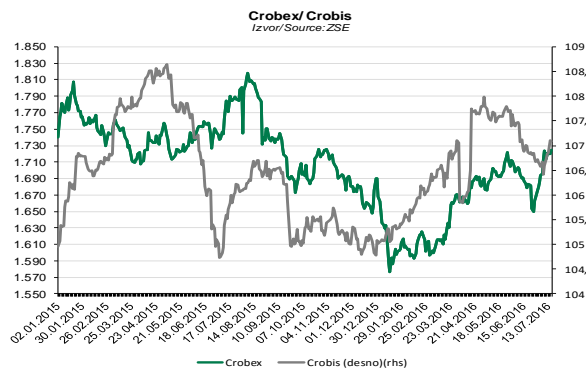
Last week, along with a regular reverse repo auction where 60 million kuna at the fixed repo rate of 0.50% was injected in the system, the third structural repo auction was held. Through the auction, 234.4 million kuna was injected into banks at a 1.4% interest rate, down by 40 p.p. from the previous two operations, which accounts for a total of 945.9 million kuna injected through all of the three auctions. Liquidity is still ample, demand low and, irrespective of the beginning of a new obligatory reserve maintenance cycle, interest rate decline was recorded. The overnight Zibor decreased by 2 p.p. wow, amounting to 0.35% on Friday, 1M increased by 1 p.p. to 0.59%, while 3M decreased by 2 p.p. to 0.76%. The total ZMM turnover amounted to 35 million kuna, where supply exceeded demand by an average of 264 million kuna per day.

As there was no maturity or auction last week, the government debt under T-bills remained at 27.0 billion kuna. There will be no maturity or auction this week as well.



Crobex stagnation wow

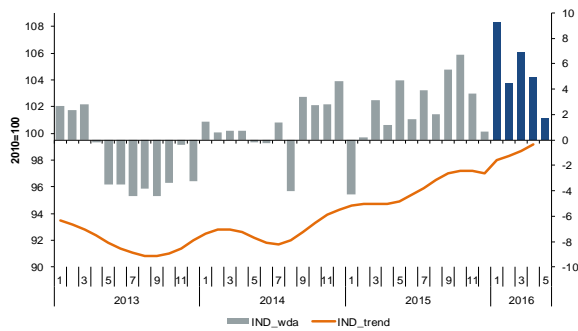
The total ZSE turnover rose 2.9 times wow (to 665.4 million kuna), owing to a 3.2 times higher turnover in bonds (to 636.1 million kuna) and 1.1 times higher turnover in shares (to 27.7 million kuna). The Crobex index closed the week at 1,724.23 points (unchanged wow), while the Crobis ended at 107.09 points (+0.5%). Concerning sector indices, CROBEXtourist closed the week at 2,745.83 points, or down by 0.9% wow, CROBEXindustry at 1,035.28 points (-0.6%), while CROBEXconstruct closed the week at 441.96 points, or unchanged versus the earlier week.



Statistics

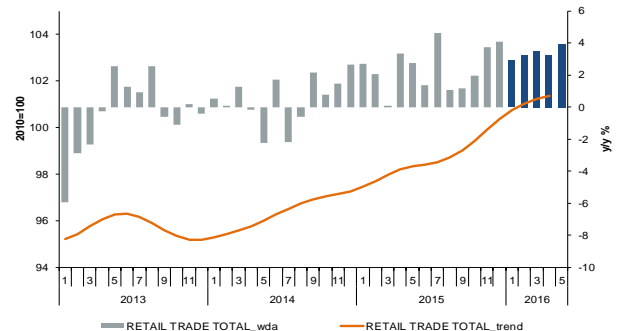
Industrial production, wda y/y % ch.

Source: Eurostat



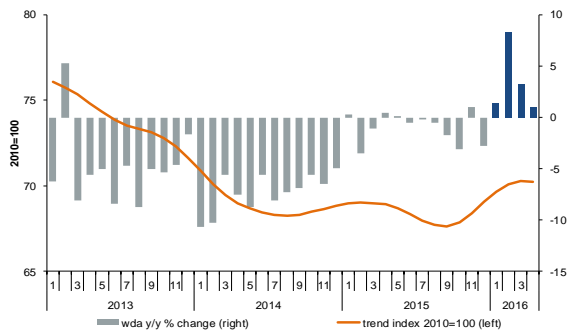
Retail trade, real, wda y/y ch.

Source: CBS



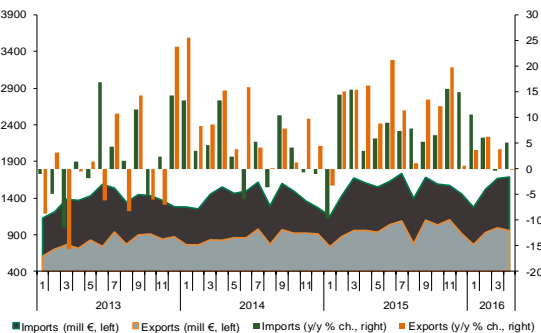
Construction works, y/y % ch. and index 2010=100

Source: CBS



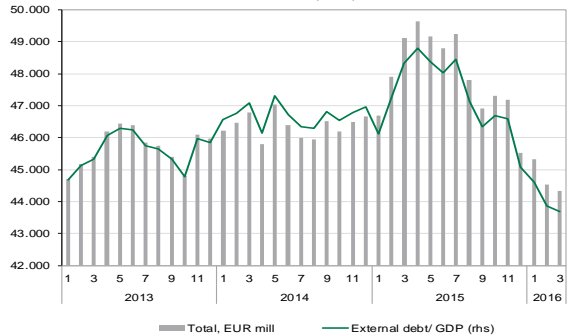
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



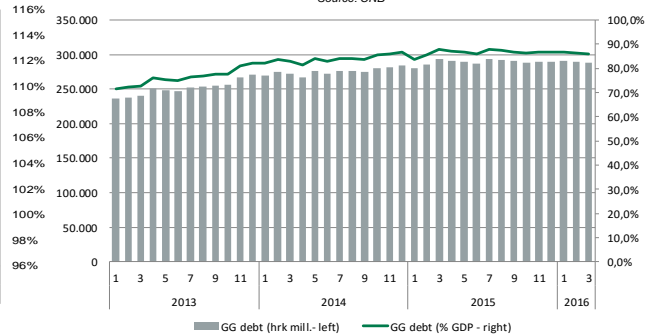
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



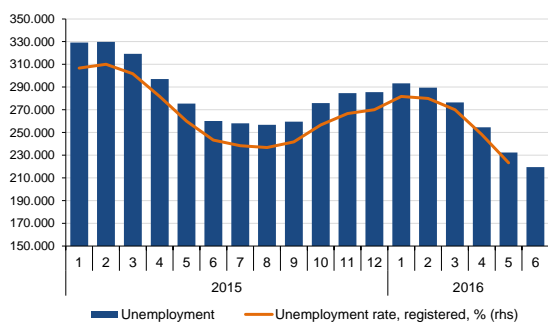
General government debt

Source: CNB



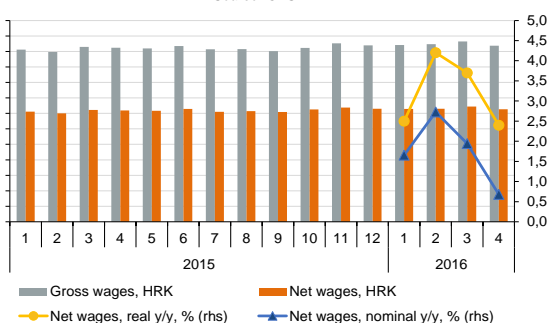
Total unemployment and unemployment rate

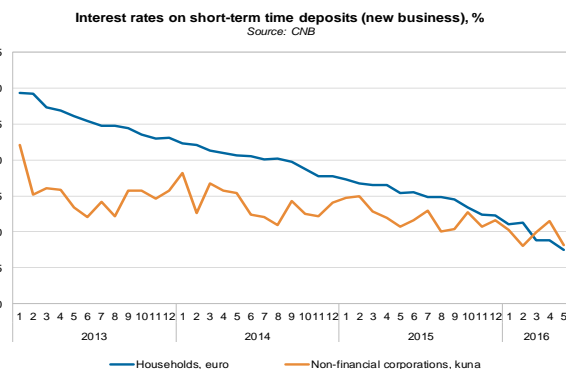
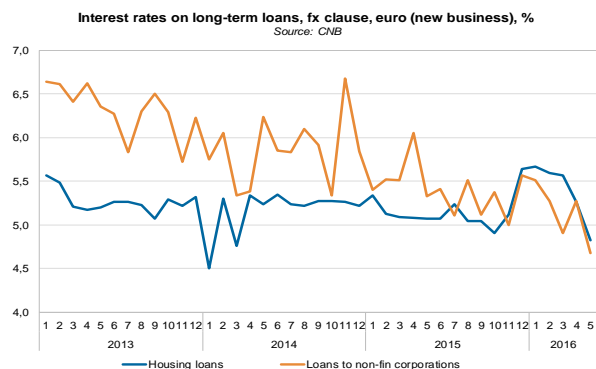
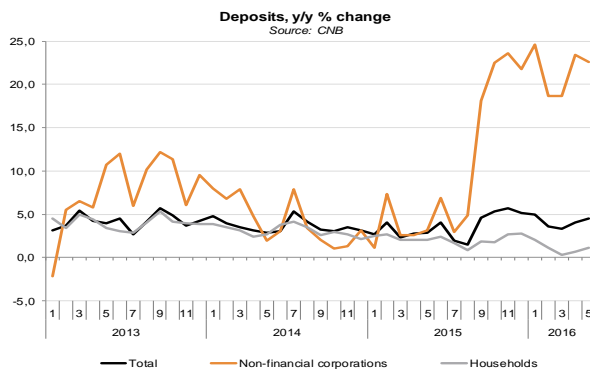
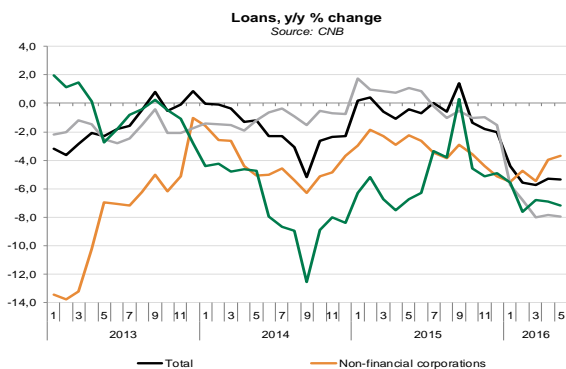
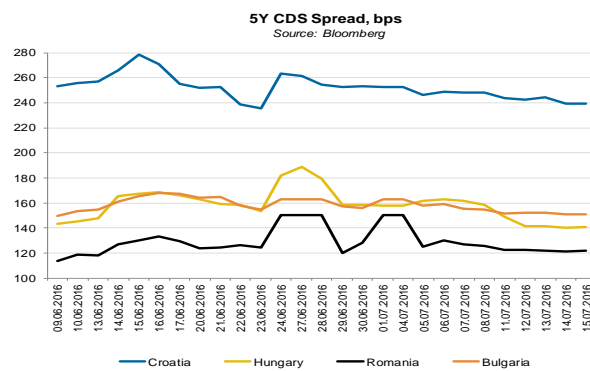
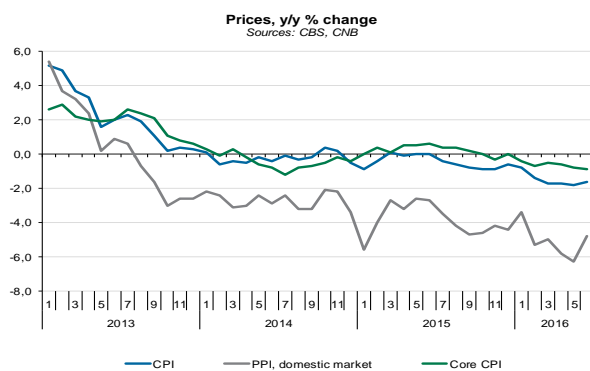
Source: CBS



Wages, monthly average

Source: CBS





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