

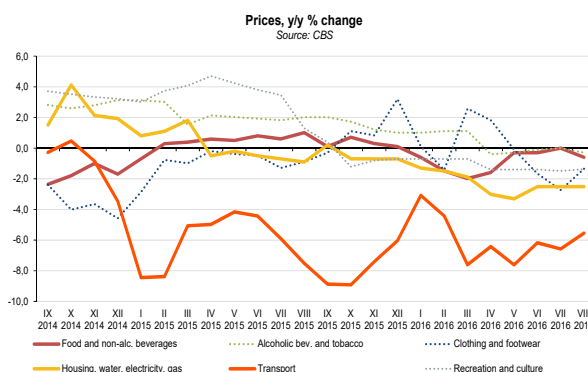
PBZ Weekly Analysis

Number 532, September 19, 2016

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Weekly overview

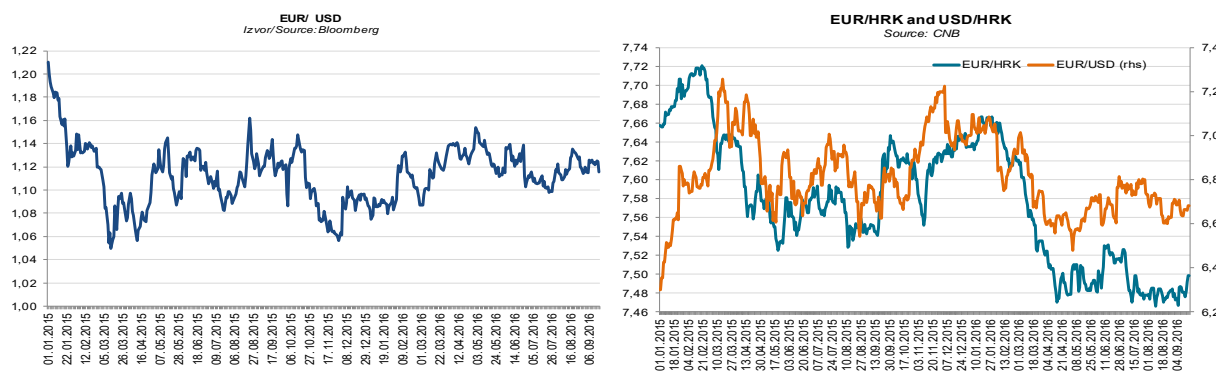
- The consumer price index for August decreased by 1.5% yoy (the same as the previous month) and 0.2% mom, while the twelve month average fell to -1.3%. The largest yoy decrease was recorded by the prices of Transport (-5.6%, of which fuels by -9.7%), Communication (-3.3%), Housing (-2.5%, of which gas by -19.2%), Recreation and culture (-1.4%), Clothing and footwear (-1.3%), Food and non-alcoholic beverages (-0.5%) and Alcoholic beverages and tobacco (-0.3%), while a larger decline in the index was lessened by higher prices in the categories Restaurants and hotels (+2.5%, of which Accommodation services +6.5%), Health (+1.9%), Furnishings (+1.2%), Education (+0.7%) and Miscellaneous goods and services (+0.1%). The highest mom decline was recorded in the prices of Transport (-1.3%), Clothing and footwear (-0.9%), whereas the prices of Food and non-alcoholic beverages, Alcoholic beverages and tobacco, Housing and Miscellaneous goods and services each decreased by 0.1%. The prices of Furnishings (+0.6%), Recreation and culture (+0.5%) and Restaurants and hotels (0.1%) increased versus the month before, while the prices of Health, Communication and Education stagnated. The first eight months of 2016 saw a decline in the price level of 1.5% yoy, where the largest contribution to the decline was recorded in the category Transport (-0.7 p.p.) and Housing (-0.4 p.p.), while the prices of Food and non-alcoholic beverages (with a share of almost 30% in the index) recorded a negative contribution of 0.1 p.p. In accordance with the recent movements, we have reduced our projection of the average annual inflation rate from -1.2% to -1.4%.



Dollar stronger, kuna slightly weaker

For most of last week, the EUR/USD exchange rate did not record significant changes, however, recording a strong decrease at the end of the week due to the release of the higher U.S. August inflation data than anticipated, which offered support to the expectations of the upcoming Fed's interest rate hike. The trading on Friday closed at 1.1155 dollar to the euro, down by 0.7% wow.

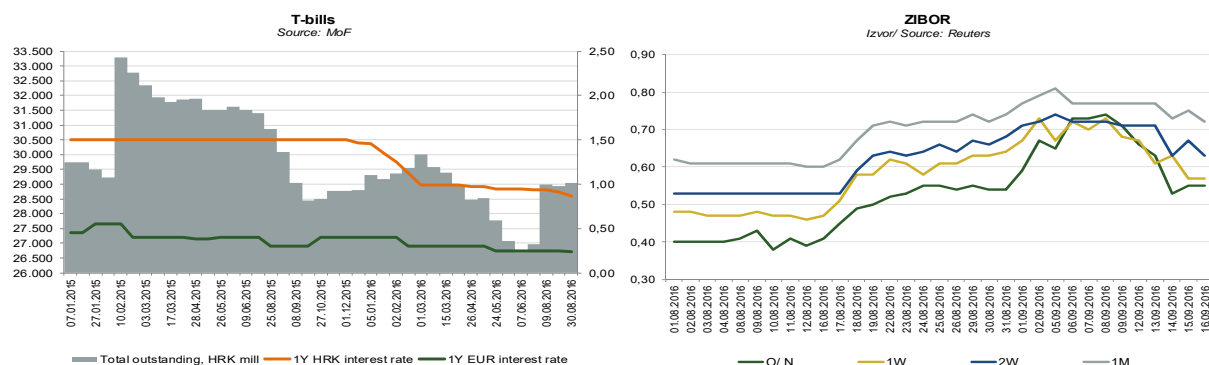
Last week saw an increased demand for foreign exchange in the interbank market, therefore the EURHRK exchange rate rose from 7.48 kuna to the euro at the beginning of the week to 7.51 at the end of the week. The mid-exchange rate of CNB on Friday amounted to 7.4986 kuna to the euro, up by 0.2% wow. The kuna weakened by 0.7% against the dollar and the exchange rate increased to 6.6827 kuna to the dollar. This week, we expect trading in the range 7.50-7.53 kuna to the euro.



Lower interest rates on shorter maturities

Last week, an increasing liquidity in the system pushed interest rates on shorter maturities to lower levels, despite the beginning of a new obligatory reserve maintenance cycle. The overnight Zibor fell by 16 b.p. to 0.55%, while the one-month Zibor fell by 5 b.p. to 0.72% wow. 3M Zibor remained at 0.87%. Along with the increased liquidity, the regular reverse repo auction saw the injection of only 30 million kuna at the fixed repo rate of 0.3%, 20 b.p. lower compared with the previous auctions. The total ZMM turnover dropped to 118 million kuna wow, whereas the average gap between demand and supply climbed to 286 million kuna.

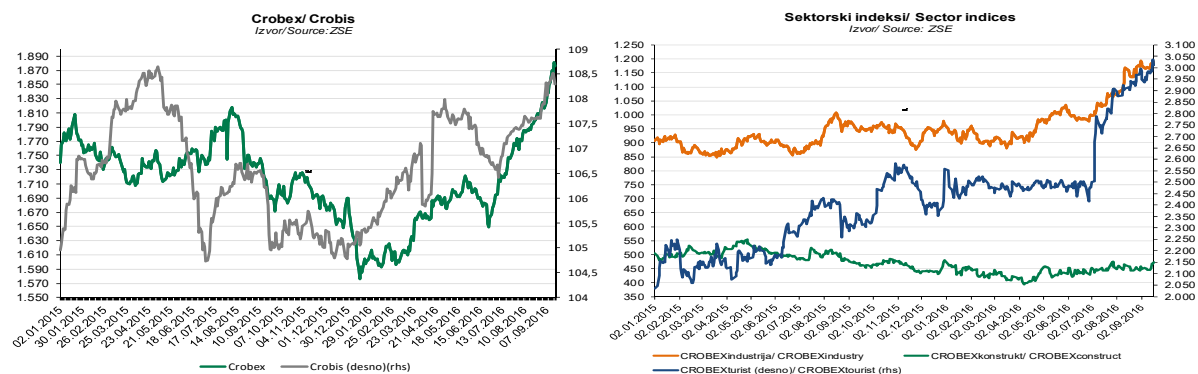
Last week, there was no maturity or the T-bill auction. The current balance of the subscribed T-bills is 28.9 billion kuna and we expect it to remain at the same level this week as well, since there will be no maturity or auction again.



Crobex rises wow

Last week, the total ZSE turnover reached 425.4 million kuna (+36.3% wow), where the turnover in bonds amounted to 344.5 million kuna (56.4%), while the turnover in shares amounted to 80.5 million kuna (-10.6%). The Crobex index rose by 1.3% wow, closing the week at 1,875.90 points, while the Crobis closed the week at 108.29 points, which is a wow stagnation. As regards sector indices, CROBEXconstruct closed the week at 473.30 points (+6.1% wow), while CROBEXindustry ended at 1,180.83 points (+1.0%). CROBEXtourist reached a historically highest level of 3,036.44 points on Thursday, but it closed the week at slightly lower 3,010.91 points (+0.9% wow). On 19 September 2016, the indices Crobex and CROBEXtr were revised, where the shares of Maistra d.d. and Ina d.d.,

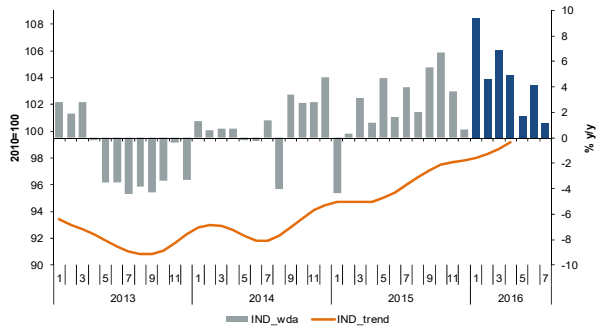
were excluded, while the shares of Imperial d.d., Luka Ploče d.d., Sunčani Hvar d.d. and Uljanik Plovidba d.d. were included in the above mentioned indices.



Statistics

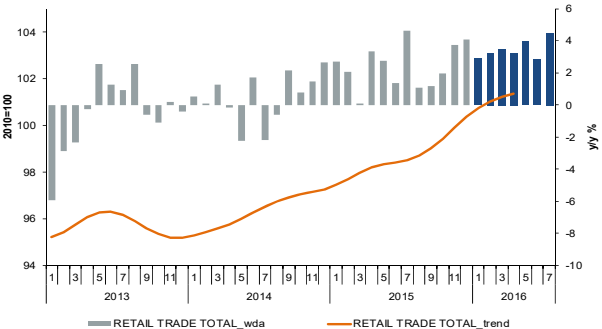
Industrial production, wda y/y % ch.

Source: Eurostat



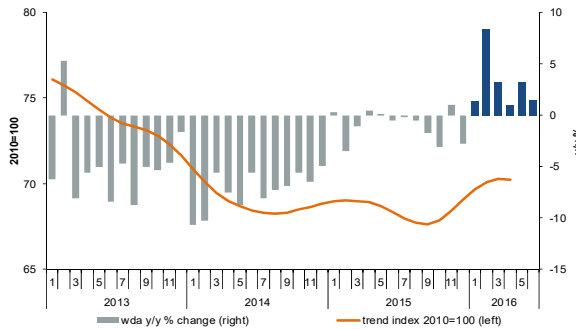
Retail trade, real, wda y/y ch.

Source: CBS



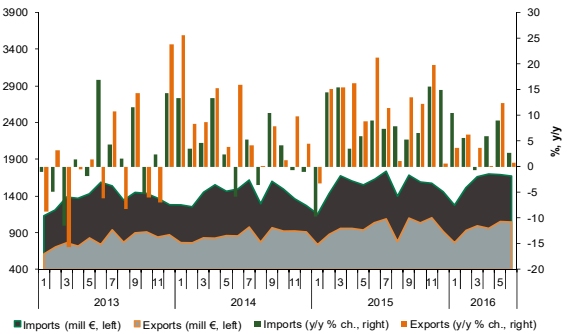
Construction works, y/y % ch. and index 2010=100

Source: CBS



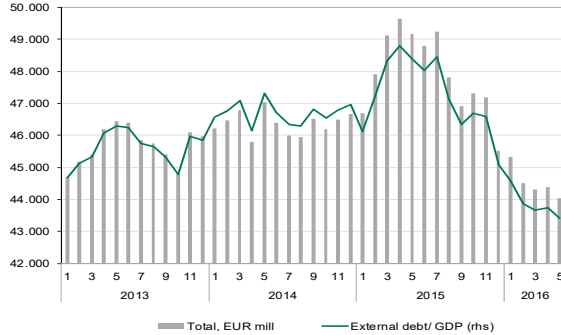
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



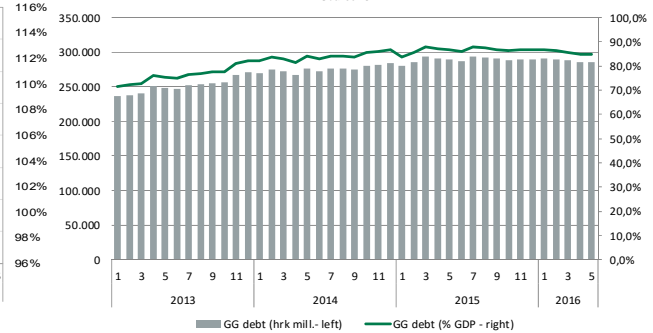
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



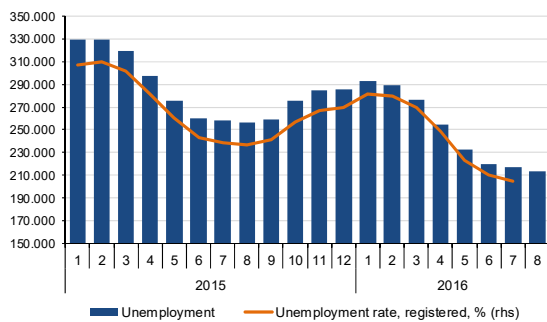
General government debt

Source: CNB



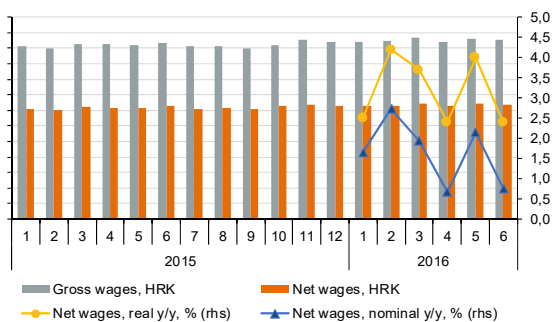
Total unemployment and unemployment rate

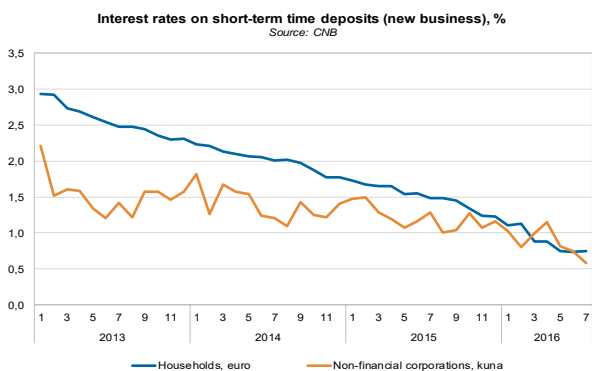
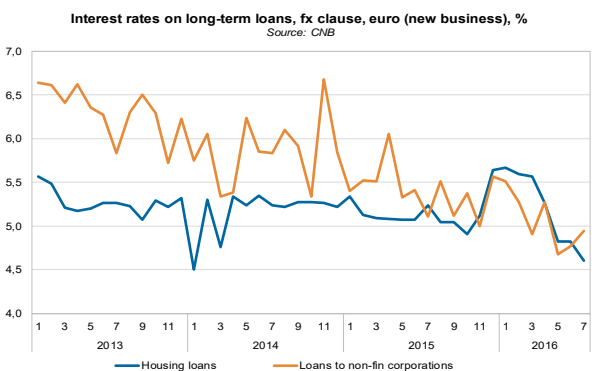
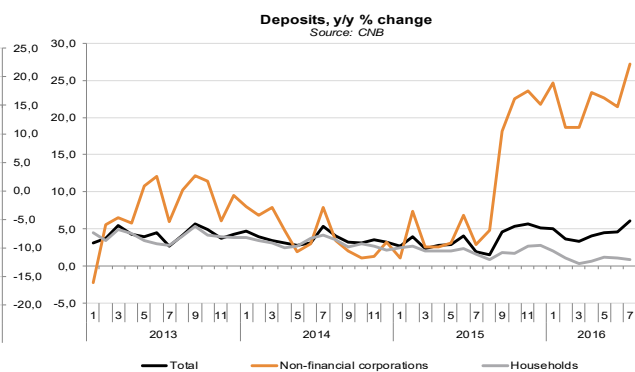
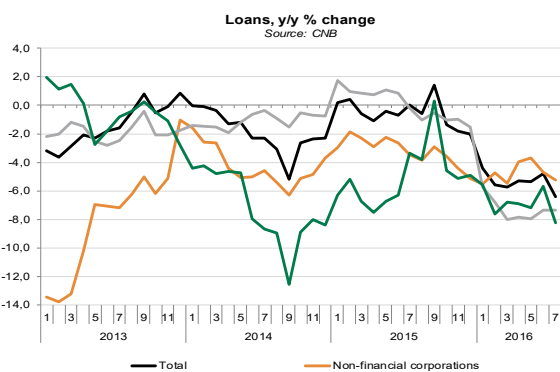
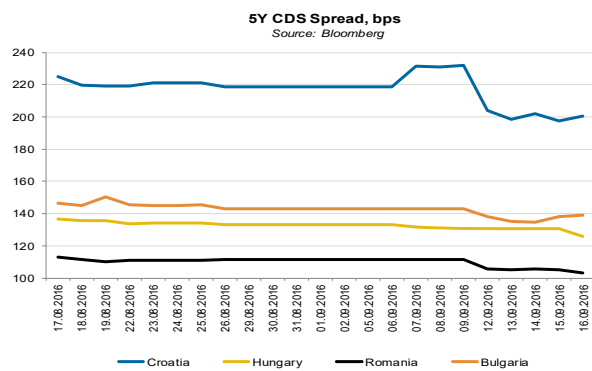
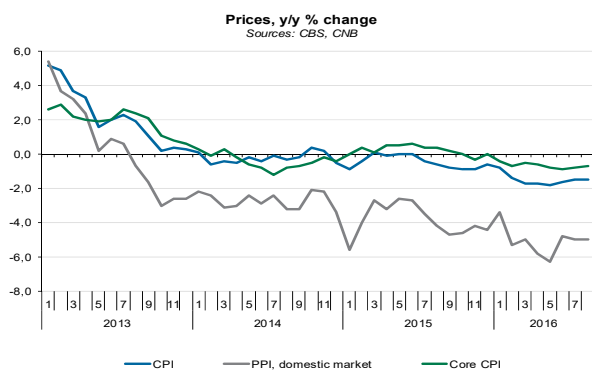
Source: CBS



Wages, monthly average

Source: CBS





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