

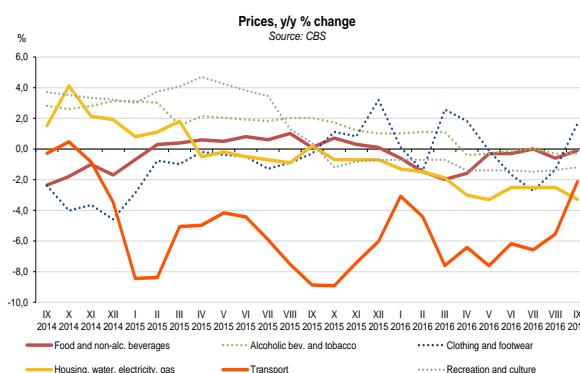
PBZ Weekly Analysis

Number 536, October 17, 2016

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Weekly overview

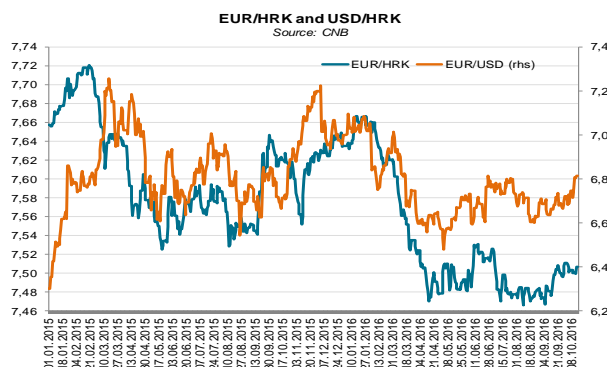
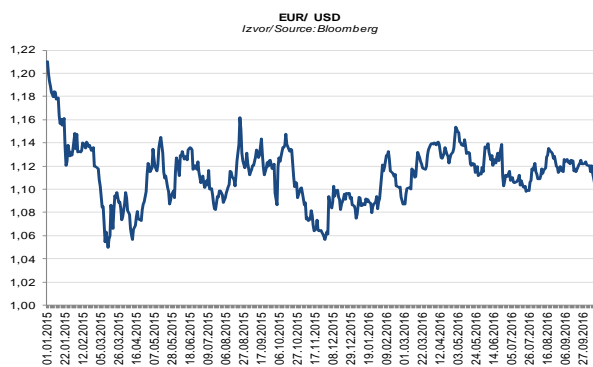
- The decrease in the consumer price index for September slowed down to 0.9% yoy, following the August drop in prices of 1.5%. The indicated index rose 1.1% mom (-0.2% in August), while the twelve month average remained at the level of August (-1.3%). In September the largest yoy decline was recorded in the prices of Communication (-3.6%), Housing (-3.3%, of which gas by 18.5%), Transport (-2.1%, of which fuels by 3.1%), Recreation and culture (-1.2%), Alcoholic beverages and tobacco (-0.2%) and Food and non-alcoholic beverages (-0.1%), whereas the largest yoy increase was recorded in the category Health (+1.9%), Clothing and footwear (+1.7%), Restaurants and hotels (+1.5%), Education (+0.7%), Furnishings (+0.6%) and Miscellaneous goods and services (+0.4%). The largest mom increase in the prices was recorded in Clothing and footwear (+17.4%, arrival of new collections), Transport (+1.2%, due to higher fuel prices by 2.8%), Housing (+0.3%), Miscellaneous goods and services (+0.2%), Food and non-alcoholic beverages and Alcoholic beverages and tobacco (both by +0.1%), while the prices of Health stayed at the level of the previous month. On the other hand, the largest mom decline in the price level was recorded in Restaurants and hotels (-1.2%, of which Accommodation services by -10.6%, post seasonal decline in the prices), Recreation and culture (-0.7%), Furnishings (-0.6%), Communication (-0.4%), and the prices of Education (-0.1%). Analysing the period from January to September 2016, the consumer prices recorded a drop of 1.4% yoy on average, where the largest contribution to these deflationary movements came from the low price of oil and a decline in the price of gas. By the end of the year, we expect deflationary pressures to soften due to a rise in the prices of food and crude oil in the global markets.
- Following the increase of 2.9% in June and 4.4% in July, the real retail trade turnover accelerated its yoy growth in August to 5.1% (according to wda data), in line with the excellent tourism indicators for the same month (3.0% higher arrivals, 7.3% higher nights yoy), but also due to a low base recorded in the same month of the previous year (+1.1%), thus confirming the trend which has been positive since September 2014. As regards the month before, the real retail trade turnover in August increased by 0.3% (seasonally and working-day adjusted data). Over the first eight months of 2016, the real retail trade turnover increased by 3.7% from the same period last year (I-VIII 2015: +2.3%), as a result of a record tourist season, positive shifts in the labour market and a rise in the real disposable household income. The retail trade turnover of food, beverages and tobacco increased in real terms by 1.3% yoy over the same period (I-VIII 2015: +3.4%), whereas the retail trade turnover of non-food products (except of automotive fuels) increased in real-terms by 8.6% (I-VIII 2015: +5.3%).



Dollar rises strongly, kuna remains unchanged

The dollar has continued to strengthen against the euro, boosted by a rise in probability of the Fed's interest rate hike at the end of the year. The dollar strengthened by 2.0% against the euro wow, while trading on Friday closed at 1.0972 dollar to the euro, the lowest level since July this year.

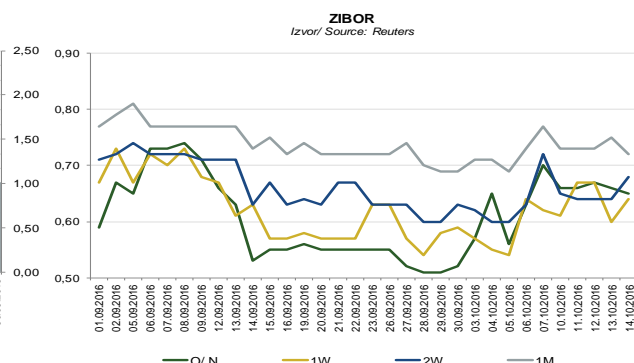
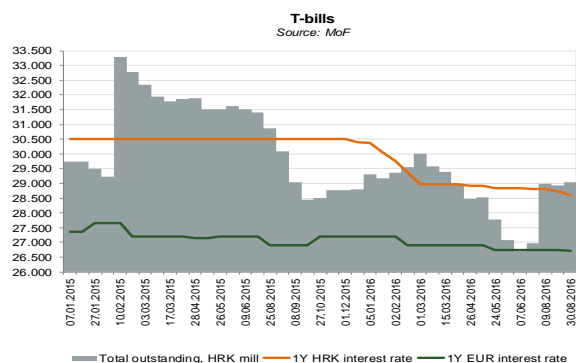
There was no major commotion in the domestic FX market last week, volumes were low and the exchange rate was stable. The mid-exchange rate at the end of the week amounted to 7.5071 kuna to the euro, the same level as last Friday, while the USD/HRK exchange rate rose to 6.8147 kuna to the dollar, +1.0% wow. This week, we anticipate trading in the range 7.49-7.53 kuna to the euro.



Increased liquidity lowers interest rates

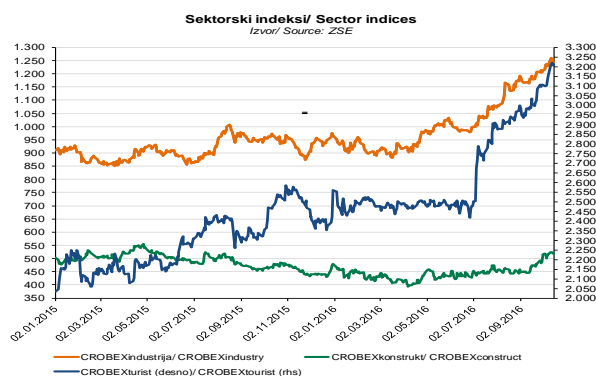
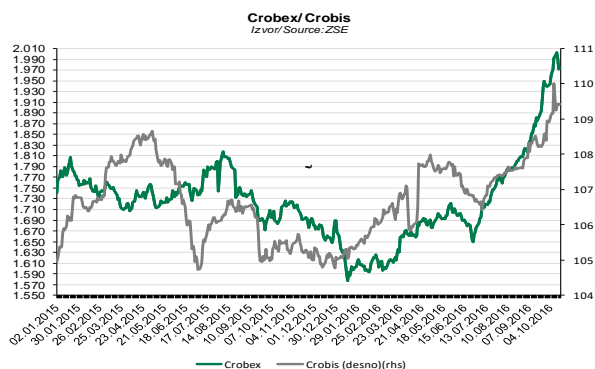
Last week saw the beginning of a new obligatory reserve maintenance period, however, as liquidity in the system increased at the same time, interest rates on the shorter end of the curve decreased. The overnight Zibor fell wow by 5 b.p. to 0.65%, 1M by 5 b.p. to 0.72%, while 3M stayed at 0.88%. At the regular reverse repo auction, CNB injected 540 million kuna at the fixed repo rate of 0.3%, the same as the week before. The total ZMM weekly turnover dropped to 104 million kuna, while the average daily excess of supply over demand declined to 152 million kuna.

The balance of the subscribed T-bills amounts to 28.9 billion kuna and the next maturity is expected in two weeks.



Rise in Crobex stops

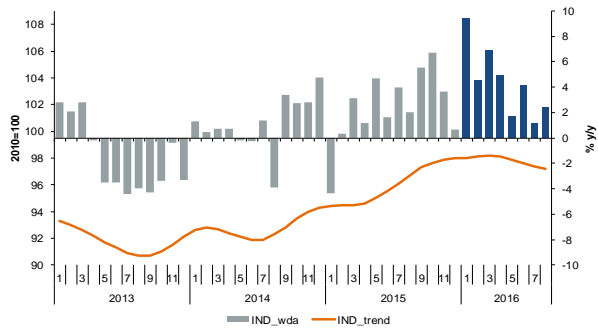
Last week, the total ZSE turnover rose by 44.6% wow, amounting to 354.1 million kuna, due to a 33.6% higher turnover in bonds (256.2 million kuna) and a 83.7% higher turnover in shares (97.9 million kuna). The Crobex index, following the increase for nine consecutive weeks, decreased by 1.0% wow, closing the week at 1,972.42 points, while the Crobis increased by 0.2% wow (to 109.45 points). As regards sector indices, CROBEXindustry climbed by 0.5% wow (to 1,239.38 points), CROBEXtourist by 1.4% (to 3,205.36 points), whereas CROBEXconstruct was up by 2.9% wow, closing the week at 531.62 points.



Statistics

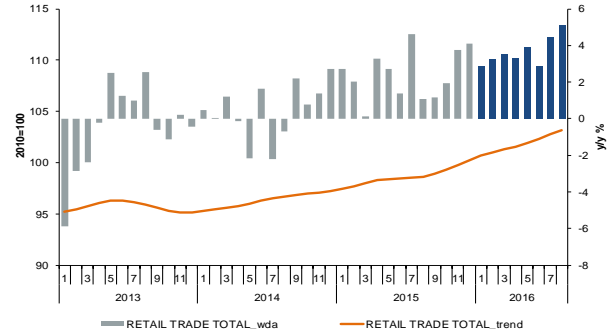
Industrial production, wda y/y % ch.

Source: Eurostat



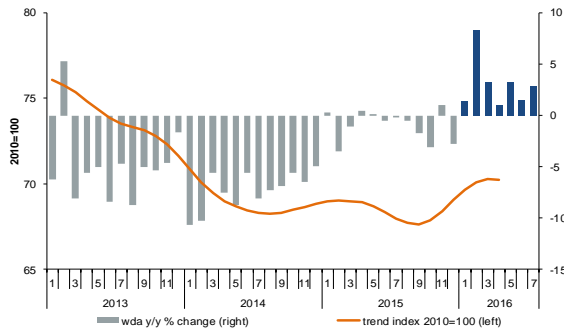
Retail trade, real, wda y/y ch.

Source: CBS



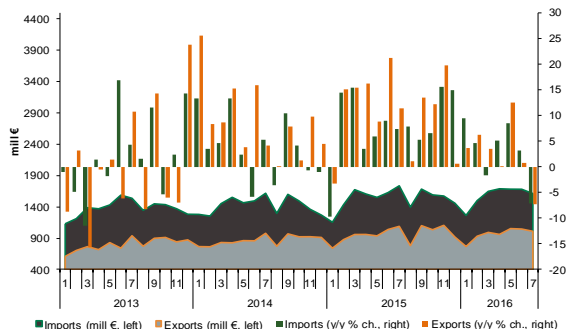
Construction works, y/y % ch. and index 2010=100

Source: CBS



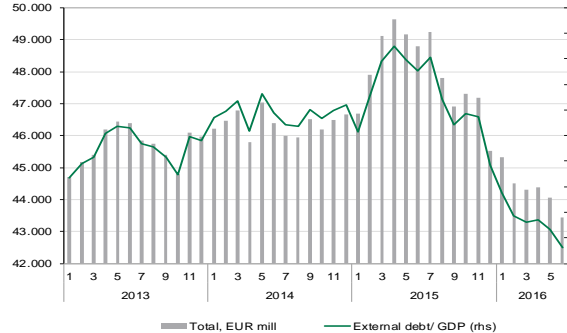
Goods exports and imports (y/y % ch. and mill €)

Source: CBS



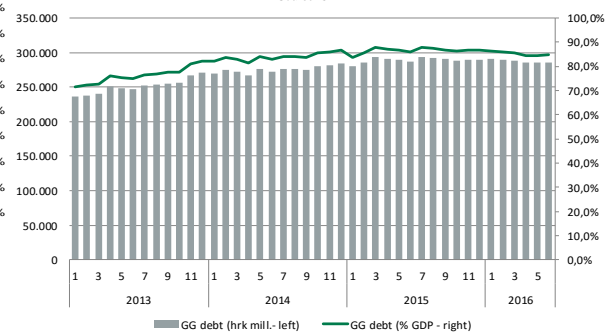
External debt, amount and share to GDP

Sources: CNB, CBS, PBZ



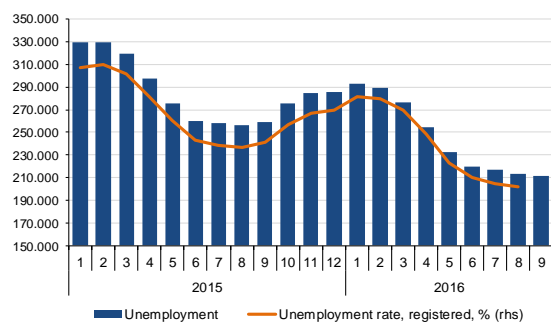
General government debt

Source: CNB



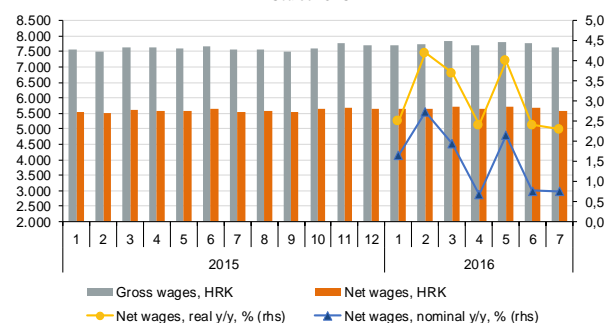
Total unemployment and unemployment rate

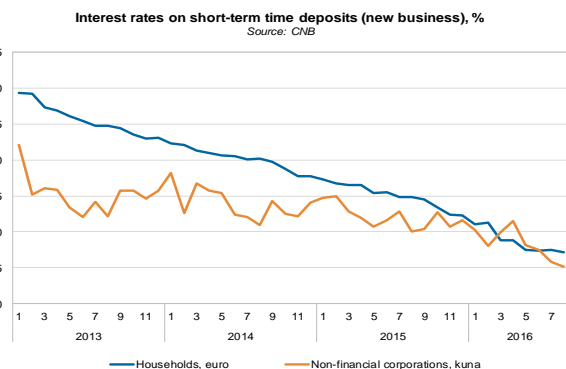
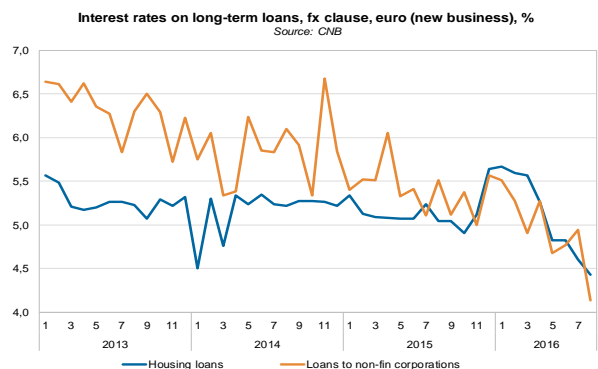
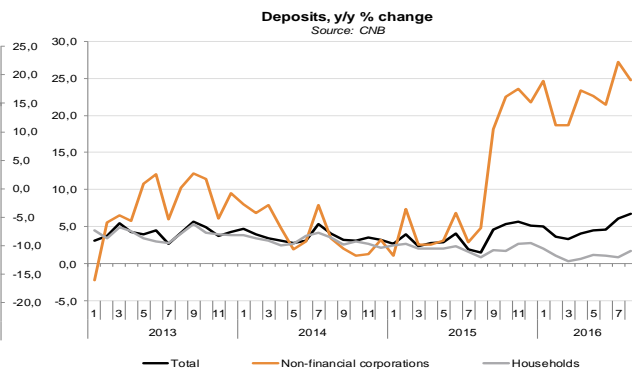
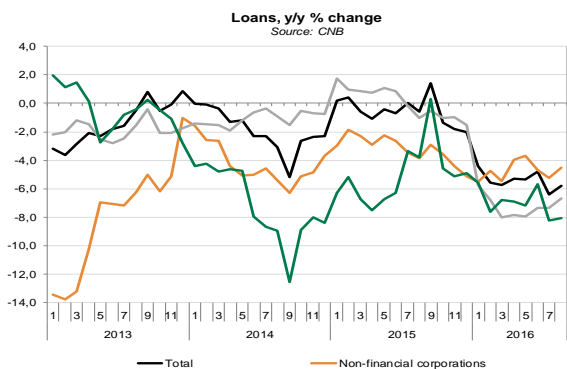
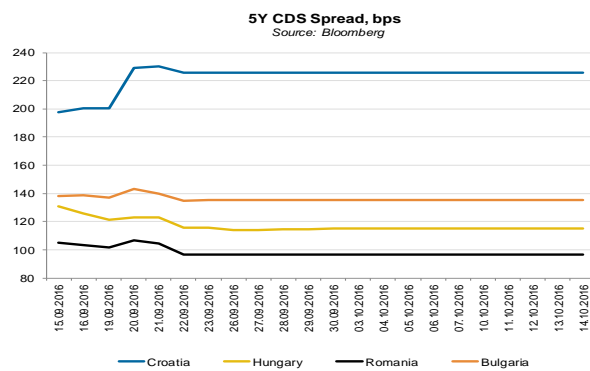
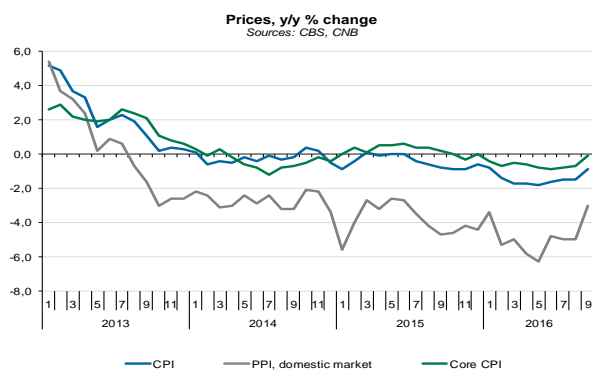
Source: CBS



Wages, monthly average

Source: CBS





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