

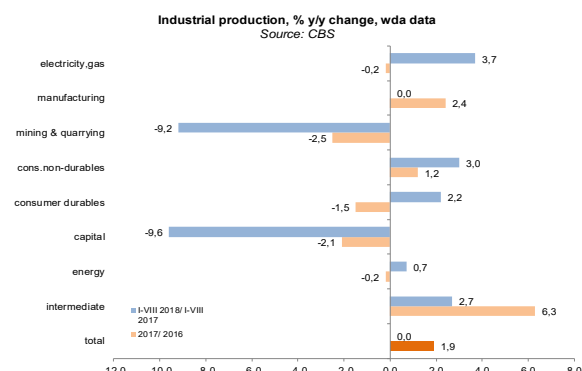
PBZ Weekly Analysis

Number 621, October 01, 2018

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Weekly overview

- The industrial production declined by 1.0% yoy in August (wda), showing a slightly larger fall versus July, when a decline of -0.9% was recorded. Negative August trends are a result of a decreased production in Manufacturing of 1.7% (-1.0% in July), where Manufacture of food products dropped by 2.0% yoy, while a negative impact came from lower activity in Mining and Quarrying (-15.7%) as well. Thereby, production in the category Electricity, gas, steam and air conditioning supply rose by 8.2% yoy, thus continuing its positive trend of a yoy increase for the fourth consecutive month. The industrial production volume rose by 0.3% mom in August (seasonally and working-day adjusted), solely due to a growth in the production in Electricity, gas, steam and air conditioning supply (+3.3%), whereas Manufacturing (-0.4%, of which the production of textile, leather and related products, basic pharmaceutical products and pharmaceutical preparations registered a double-digit decrease) and Mining and Quarrying (-3.1%) recorded a decrease. Analysing the period from January to August 2018, the industrial production stagnated yoy, where the largest impact was recorded by stagnation in Manufacturing production volume. Within Manufacturing, Manufacture of other transport equipment, which also includes manufacture of ships, decreased significantly yoy by 37.1%, whereas a double-digit decrease in the activities was also recorded in Manufacture of computer, electronic and optical products (-13.9%), chemicals and chemical products (-11.9%), and machinery and equipment (-10.9%). The production volume in Mining and Quarrying simultaneously fell by an average of 9.2% versus the first eight months of 2017, while the production volume in Electricity, gas, steam and air conditioning supply rose by 3.7%.
- The volume of construction works in July speeded up its yoy growth to +7.2% (from +3.1% in June, wda), where the largest impact was recorded by accelerated growth of activities on buildings (+15.7%, versus +9.9% in June), but also a slowdown in the construction of civil engineering works (from -5.9% in June to -3.1% in July). On a month-over-month basis, the total construction volume increased by 3.3% (seasonally and working-day adjusted), where an increase was recorded in both the volume of the construction of buildings (+4.6%) and civil engineering works (+2.7%). Over the first seven months of 2018, the volume of construction works advanced by 3.6% yoy, which is a substantially faster increase in the total construction versus the same period last year (+2.0%), partly owing to a larger number of investments of the private sector, as reflected in a 11.2% rise in the construction of buildings (I-VII 2017: +5.6%). On the other hand, the volume of civil engineering works, accelerated its decline (from -2.4% last year to -6.5% this year), which prevents a more pronounced recovery of the entire sector. Thereby, the number of the issued building permits dropped by 4.4% compared with the first seven months last year (to a total of 5,127 permits), whereas the total value of the works from these permits fell by 5.8% (to 14.5 billion kuna), mainly affected by a 23.2% decrease in

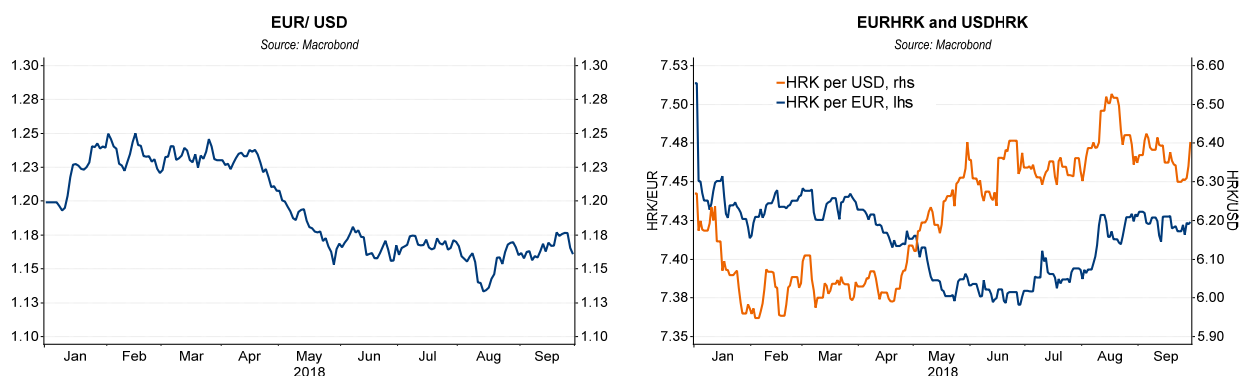


the value of construction of buildings, while the value of construction of civil engineering works rose by 36.3%.

FOMC raises interest rate, kuna unchanged

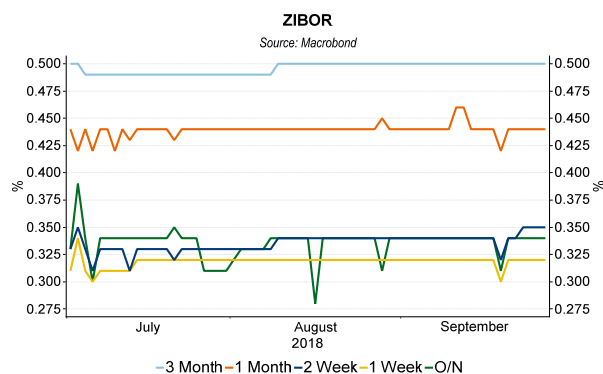
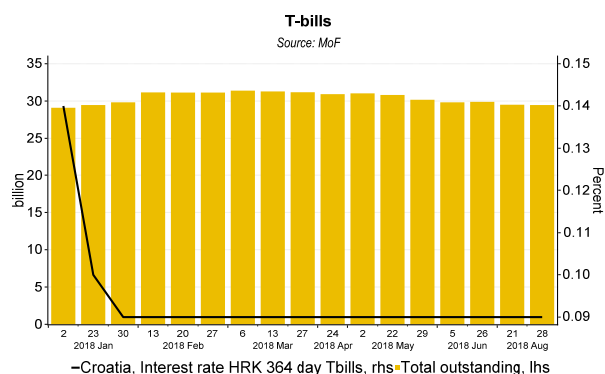
The last FOMC meeting resulted in the third rise in the target range for the key interest rate by 25 b.p. to 2.00-2.25% this year. The expectations have not changed and the Fed has signalled another interest rate hike by the end of this year and three further hikes next year. Amid these developments, the dollar strongly appreciated against the euro, so trading closed at 1.16 dollar to the euro at the end of the week, down by 1.1% wow.

The FX market remains calm and the exchange rate of the kuna against the euro has continued to fluctuate moderately, amounting to 7.4240 kuna to the euro on Friday, up by 0.1% wow. The kuna against the dollar plummeted, by 1.6% wow, while the exchange rate leapt to 6.4028 kuna to the dollar. This week, we expect a continuation of the stable exchange rate period and trading in the range 7.42 – 7.45 kuna to the euro.



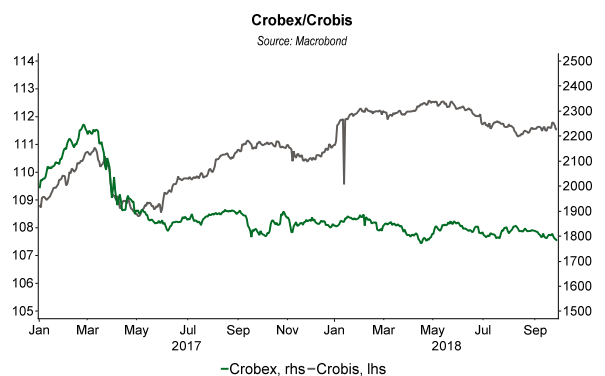
Money market calm

Excess liquidity moderately declined to 21 billion kuna, while interest rates stagnated (overnight Zibor 0.34%, 1M 0.44%, 3M 0.50%). There was no activity at the regular reverse repo auction of CNB nor on ZMM.



Crobex down wow

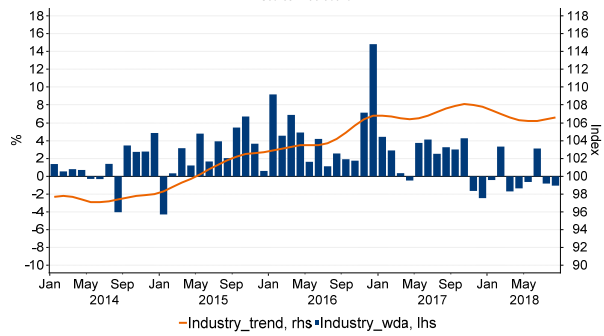
Last week, the total ZSE turnover amounted to 533.7 million kuna, which is up by 2.5 times versus the week before, due to a 2.6 times higher turnover in bonds (to 480.7 million kuna) and an 88.2% higher turnover in shares (to 53.0 million kuna). Last Friday, the Crobex Index closed at 1,782.15 points, which is down by 1.2% versus the week before, while Crobis closed at 111.53 points or down by 0.1% wow. Sector indices ended in negative territory on Friday, where CROBEXconstruct declined by 8.2% (to 430.83 points), CROBEXindustry by 4.1% (to 991.53 points), while CROBEXtourist by 0.2% (to 3,369.32 points).



Statistics

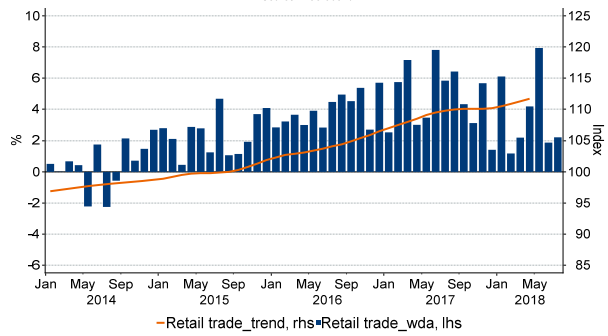
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



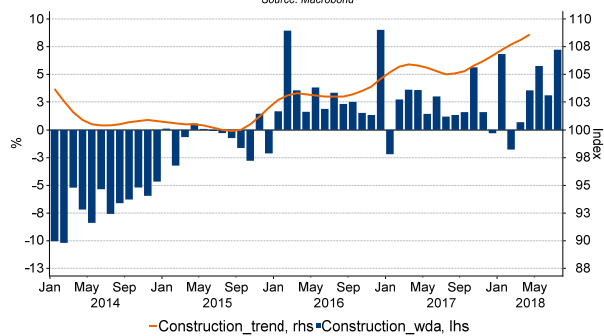
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



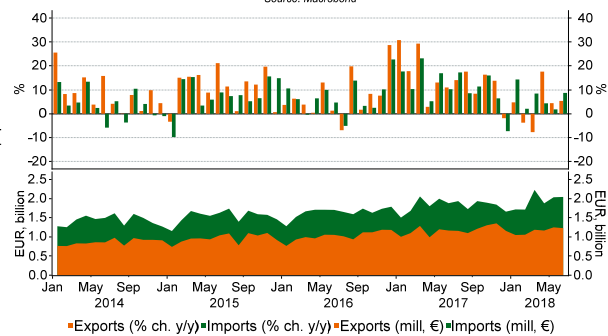
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



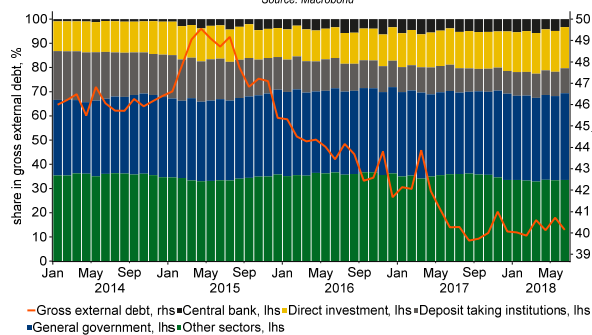
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



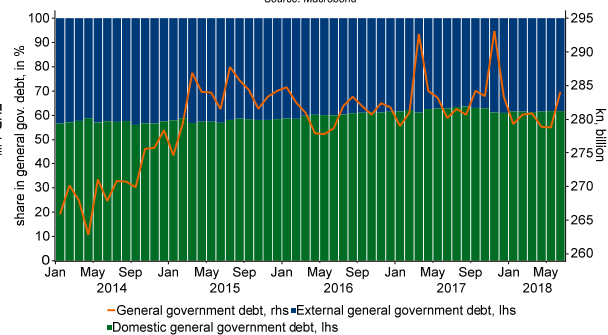
Gross external debt

Source: Macrobond



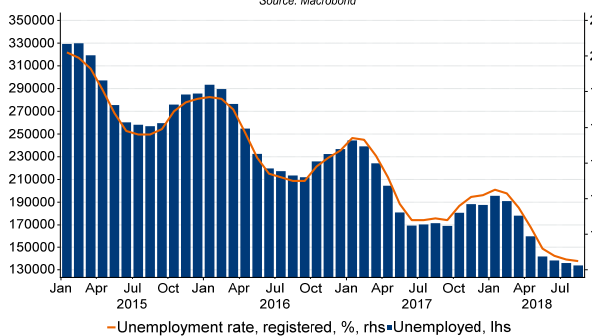
General government debt

Source: Macrobond



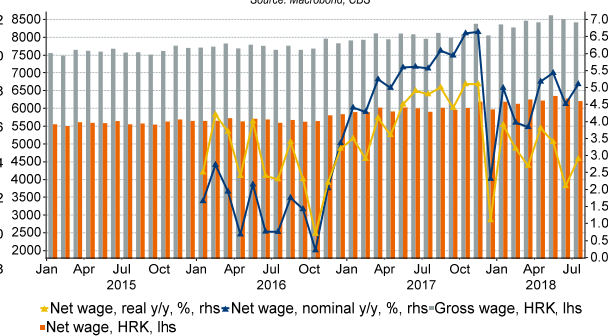
Total number of unemployed and unemployment rate

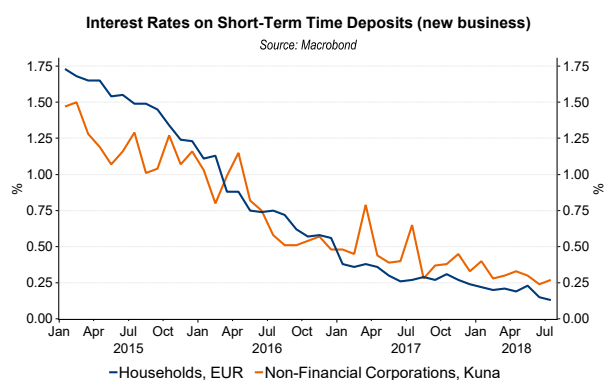
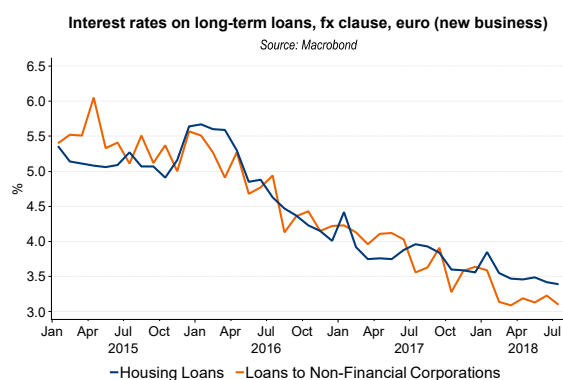
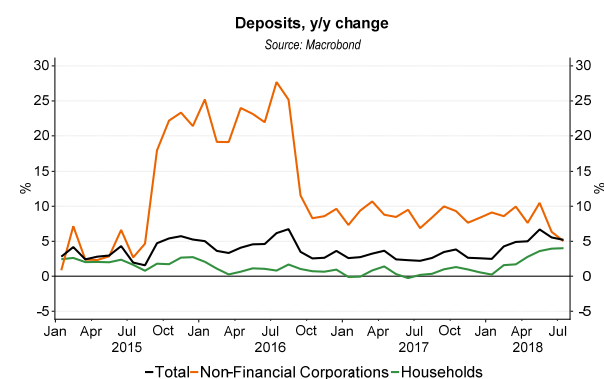
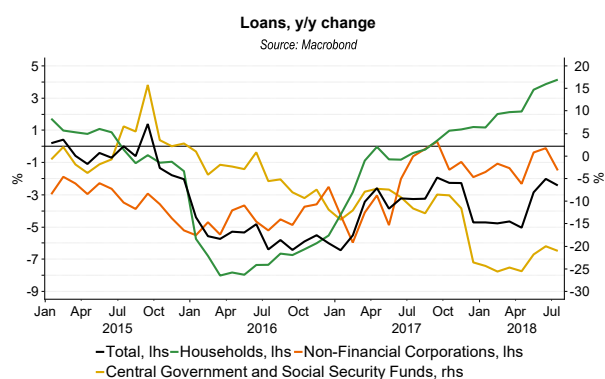
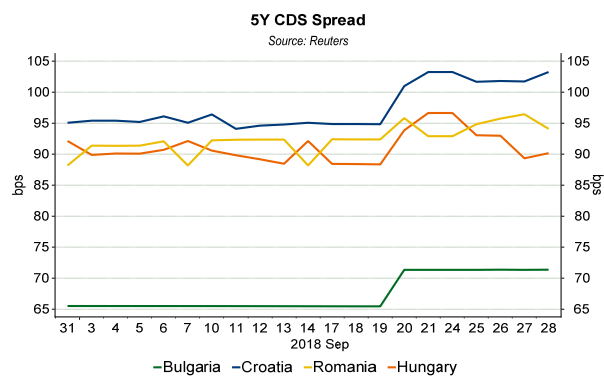
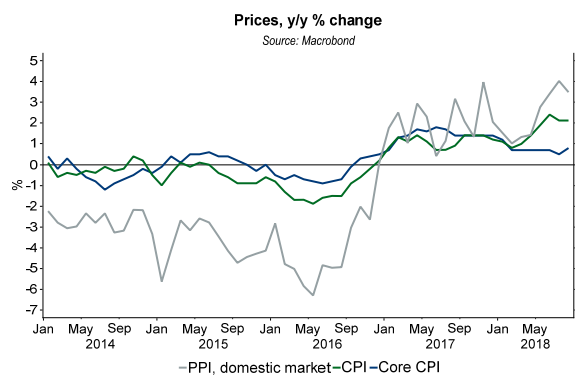
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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