

PBZ Weekly Analysis

Number 629, December 3, 2018

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Weekly overview

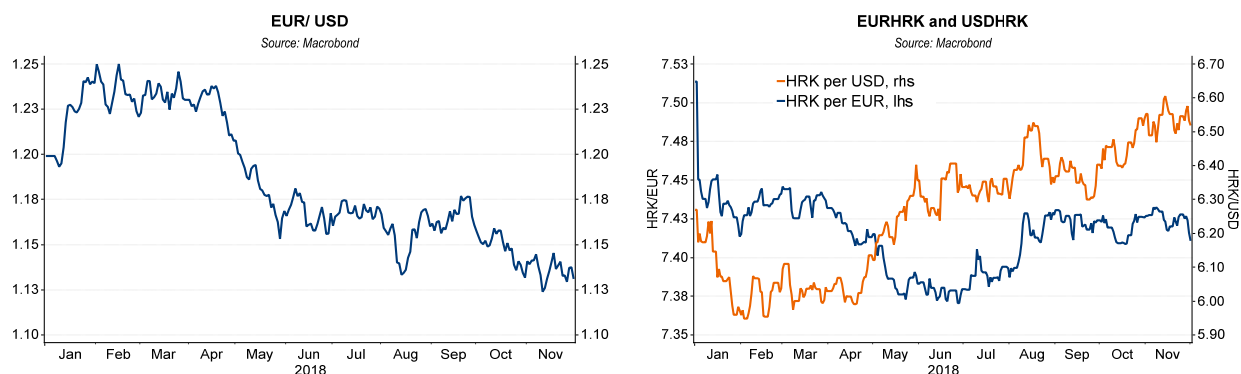
According to the data of the Croatian Bureau of Statistics, the gross domestic product for the third quarter this year increased by 2.8% versus the same period last year (2.7% according to the seasonally adjusted data) and 0.6% versus the previous quarter. The largest contribution to the increase, the same as over the previous 12 quarters, came from domestic demand, mainly from personal consumption which rose by 2.7% compared with the same period last year (although, this is the lowest growth rate since the end of 2015). Favourable movements in the labour market (rise in employment and wages), low inflation and favourable financing conditions will continue to boost personal consumption, which is expected to strengthen mildly in the last quarter due to a positive consumer sentiment related to the upcoming rise in wages in 2019 (tax changes, increase in the public and government sector wages as well as minimum wages). Along with personal consumption, the increase in domestic demand was also a result of public (government) spending, which advanced by 3.9% in the third quarter (the largest growth rate since the beginning of 2009), and the investment activity which increased by 3.7% and thus accelerated versus the first half-year. At the same time, exports of goods and services rose by 3.7%, where the exports of goods rose by 5.2% and services by 2.5% - showing also the slowest growth rate of the exports of services recorded in the third quarter over the last five years. Boosted by increased domestic consumption, the exports of goods and services rose by 5.1% in the third quarter, where the exports of goods rose by 4.8% and services by 6.4% versus the same period last year. According to the production approach, the growth of the gross value added was 2.2% (after 1.9% and 2.3% registered in the first two quarters), where the largest GVA growth was recorded in the construction activity (+7.1%), which shows a recovery of this activity most affected by the crisis. Simultaneously, GVA increased by 3.8% in trade activity and accommodation and food service activity versus the same period last year, while a decrease of 1.7% in the gross value added was recorded in industry (manufacturing 2.1%) yoy, in line with the movement of high-frequency indicator of the industrial production volume. Even though the only indicator available up to now for the last this year's quarter is not particularly favourable – industrial production decreased in October by 2.4% yoy – low GDP growth rate for 4Q in 2018 (+2.2%) and the expected increased holiday consumption might result in a similar growth rate as in the first three quarters, also, the GDP growth in 2018 might be around 2.8%, i.e. marginally higher than our estimate of 2.7%.

Dollar fluctuates, kuna mildly stronger

The dollar weakened against the euro in the middle of the week, after the speech of the Fed Chairman Powell gave the markets hints of a slowdown in the dollar interest rate rise over the upcoming year. However, it is very likely that the interest rate hike will occur at a December meeting. The end of the week brought a moderate correction, so trading in EUR/USD pair closed at 1.13 on Friday, down by 0.2%.

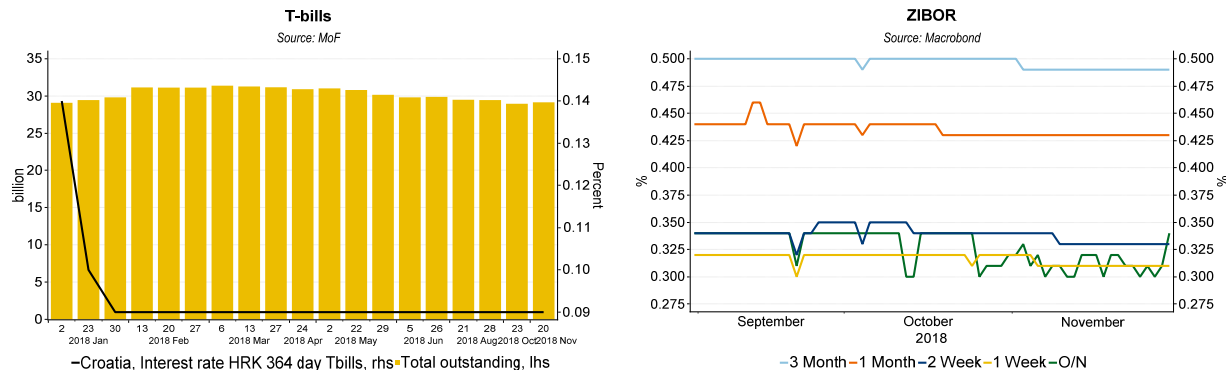
Domestic market remained calm. The kuna slightly strengthened against the euro, so the mid-exchange rate decreased to 7.4108 kuna to the euro at the end of the week, down by 0.2% versus the week

before. The kuna appreciated against the dollar as well, by 0.4%, to 6.5184 kuna to the dollar. We expect a trend of stable kuna to continue this week.



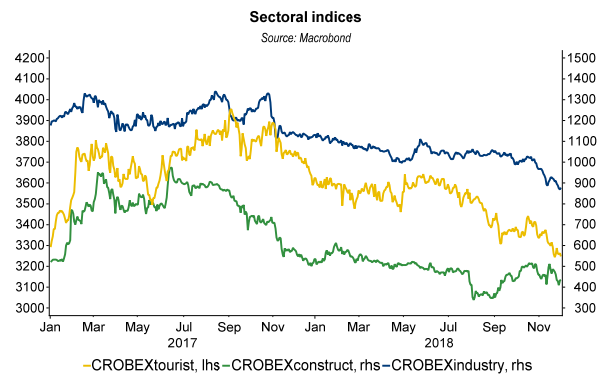
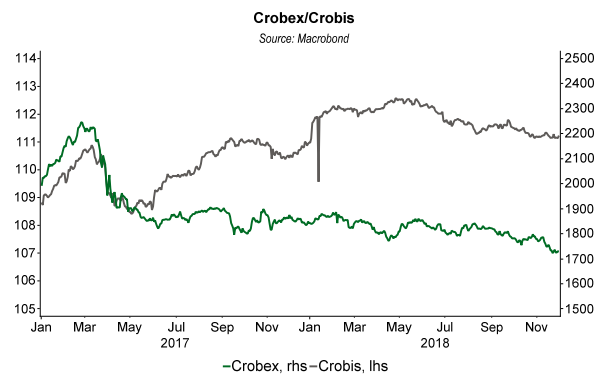
Lethargic money market

Excess liquidity remained at 24 billion kuna, while a mild shift was recorded only by the overnight Zibor (+2 b.p. wow, to 0.34%). In line with generous liquidity, there was no interest shown at the regular reverse repo auction of CNB and no turnover on ZMM. There was no T-bill auction, whereas 875 million kuna will mature this week and an auction with the planned 1 billion kuna has been announced.



Crobex stagnates wow

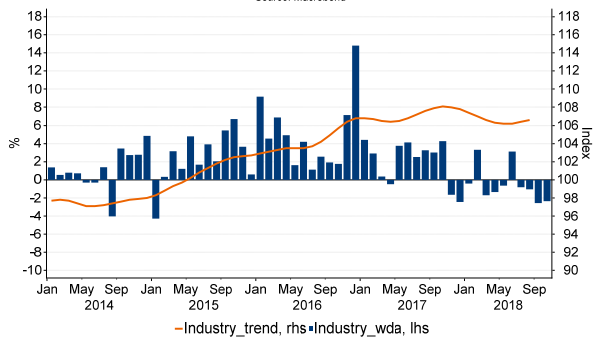
The total ZSE turnover last week amounted to 199.6 million kuna, which is up by 63.7% versus the week before, due to a growth in the turnover in bonds of 87.3% (to 153.8 million kuna) and a growth in the turnover in shares of 15.1% (to 45.8 million kuna). On Friday, the Crobex and Crobis indices closed at an almost unchanged wow level of 1,729.38, i.e. 111.24 points. Sector indices thereby closed in negative territory on Friday, where CROBEXconstruct declined by 5.4% wow (to 436.85 points), CROBEXindustry by 3.5% (to 878.74 points) and CROBEXtourist by 0.3% (to 3,248.69 points).



Statistics

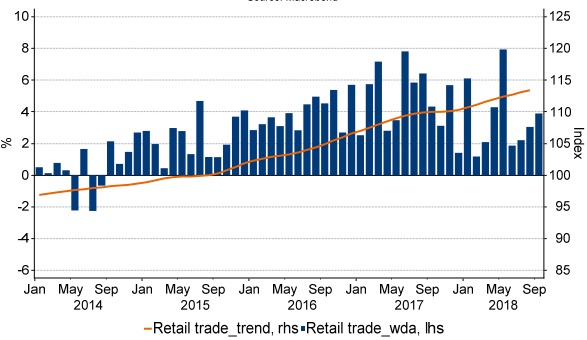
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



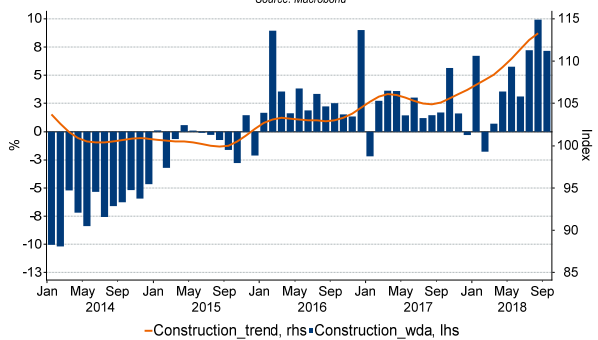
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



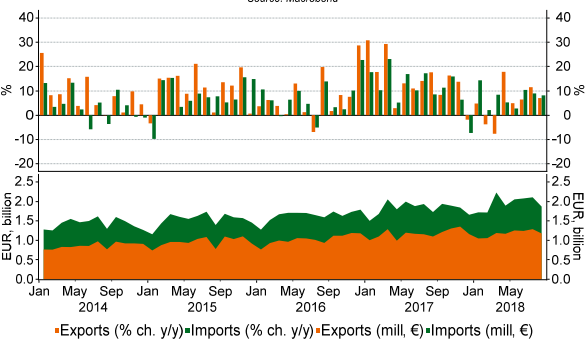
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



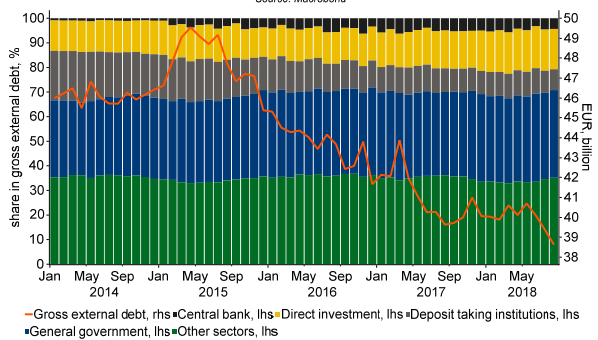
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



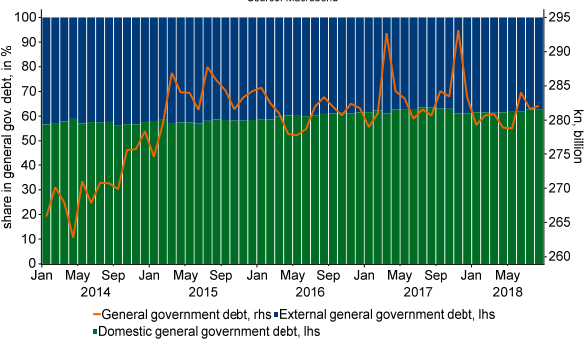
Gross external debt

Source: Macrobond



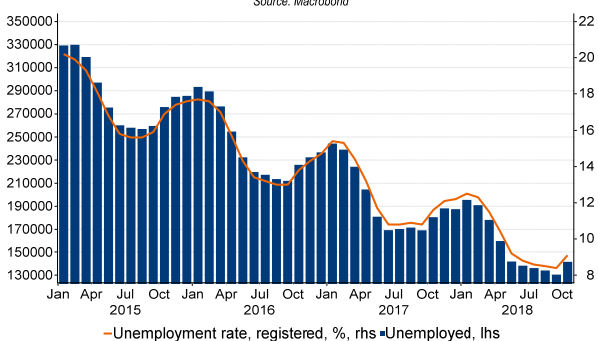
General government debt

Source: Macrobond



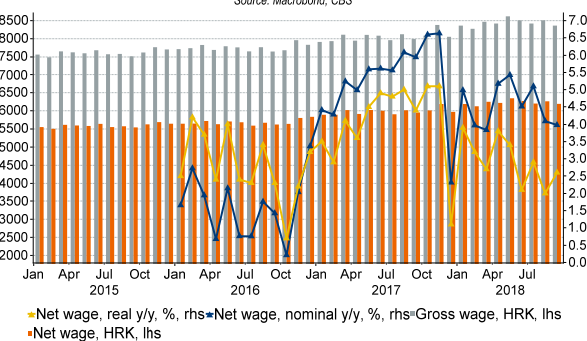
Total number of unemployed and unemployment rate

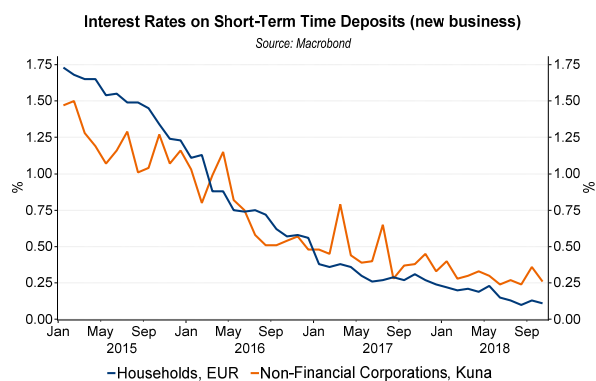
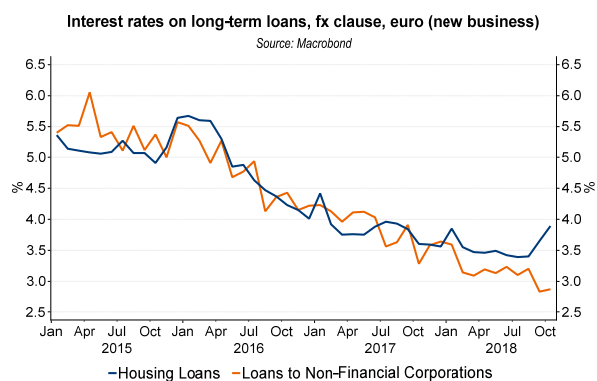
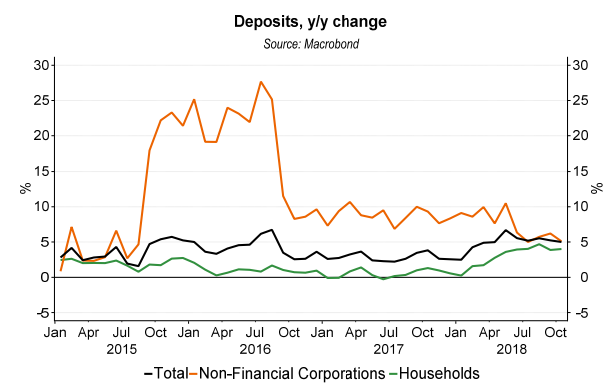
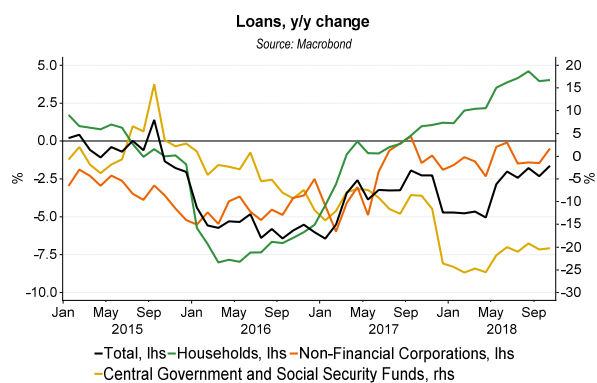
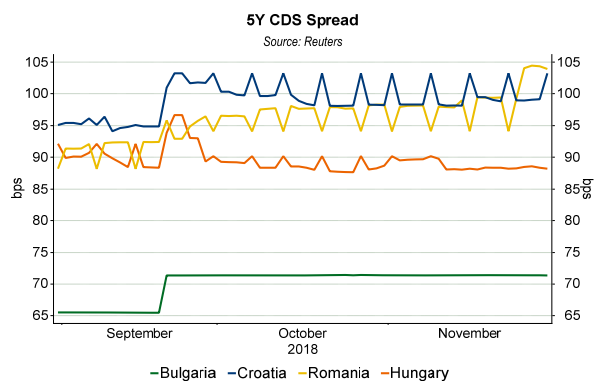
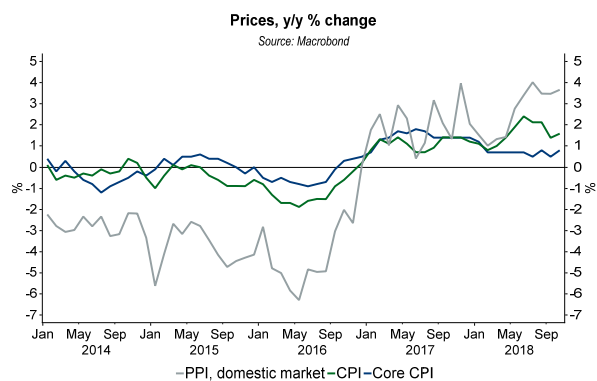
Source: Macrobond



Wages, monthly average and % ch. y/y

Source: Macrobond, CBS





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